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Ford, Bacon & Davis
Incorporated
Engineers

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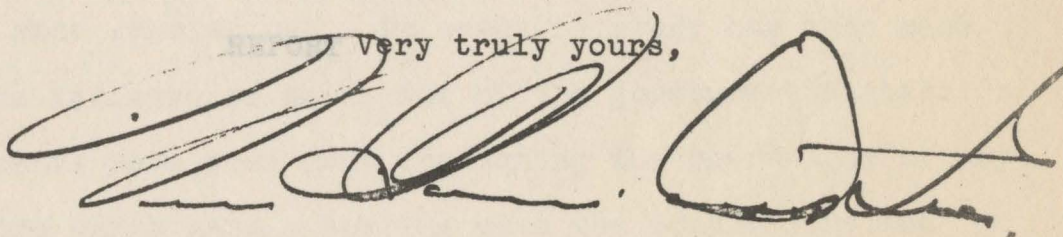
New York, December 27, 1940

Standard Oil Company (N.J.)
30 Rockefeller Plaza
New York, N.Y.

Dear Sirs:

We are presenting herewith our Preliminary Economic
and Industrial Report on the United States of Venezuela.

Very truly yours,



PRELIMINARY ECONOMIC AND INDUSTRIAL REPORT ON THE UNITED STATES OF VENEZUELA

DECEMBER 26, 1940

PURPOSE

The purpose of this investigation and report has been to make a preliminary study of Venezuela with a view of determining what should be done to improve economic, industrial and social conditions in the nation and to ascertain what subjects, if any, might be studied further with the object of preparing a definite program, which would benefit the Venezuelan Government and its people when carried out. No specific study has been made of the petroleum industry as such, nor of the government ministries. Only those comments have been made concerning the operations of any specific ministry which have a bearing upon the conclusions and recommendations of this report.

REPORT

METHOD OF APPROACH

The data, information and impressions that have formed the basis of this report were accumulated by the following methods:

- (a) From the Ministries of the government through the courtesy of Dr. Francisco J. Parra, Minister of Hacienda and the contacts that he and his able assistant Dr. Ramon Tello arranged with the other Ministries.

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- (b) By traveling around the nation. The representative parts of the nation from Maracaibo, Merida and San Cristobal in the west to Cumana, Maturin and Ciudad Bolivar in the east, were visited including such representative points in the llanos as Temblador, Gorrin, Calabozo, El Sombrero and San Carlos. This included visits to every state except Apure, Barinas, Lara and Yaracuy. Every state except Apure, including the Territory of Delta Amacuro was flown over. (See map, Exhibit No. 1)
- (c) By interviewing in the neighborhood of a hundred executives and owners of industries, commercial and financial establishments, operated by nationals and by foreigners of several nationalities as well as other foreign industrial executives who have studied manufacturing prospects in Venezuela and failed to act on them for one reason or another.
- (d) By inspection of representative national industries and numerous schools and stations of Agricultura y Cria as well as industrial and agricultural properties owned and operated by the national government and by private interests.
- (e) Through the availability of the records and personnel of the Standard Companies.

GENERAL AND SOCIAL CONDITIONS IN VENEZUELA

Geographical Conditions

Venezuela as shown on the map, Exhibit No. 2, is located on the north coast of South America and extends from 10 degrees N. of the equator south to about one degree N. of the equator, but the principal part of the country (north of the Orinoco and Apure Rivers) does not go below seven or eight degrees N. Along the western border of the country lies the northern end of the Andes range, forked to include Lake Maracaibo between the two prongs. The eastern prong ends about half way up Lake Maracaibo and from there on low mountains continue north towards the Caribbean Sea. Across the northern seacoast extends a coastal range which almost connects with the Andes in the west, dips down into the sea east of Caracas to make the shore from Carenero to Puerto La Cruz a sandy beach. Then the mountains emerge again to form the State of Sucre, dip again into the Gulf of Paria and emerge finally to form the Island of Trinidad. This coastal range is a double one, with broad fertile valleys lying between them in some sections, such as around Lake Valencia, the upper Tuy valley and east of the Gulf of Cariaco.

South of this coastal range and east of the Andes lie broad plains, locally called the llanos, drained by the Orinoco, Apure and many other rivers. On the thousands of square miles of these llanos, there are few elevations as much as 500 or 600 feet above sea level. South of the Orinoco, and east of it, after it has turned south, all the way to the borders of British Guiana

and Brazil lies practically unexplored wilderness, rising to heights of around 6,000 to 8,000 feet near the borders. The lower valley of the Orinoco, therefore, lies entirely open to the eastward. The trade winds blowing principally from the northeast carry moisture in from the sea and it is in general precipitated according to the location of the mountain ranges relative to these prevailing winds.

Being in the tropics Venezuela has, of course, no change of seasons except as between the dry and wet seasons. Their occurrence differs in various parts of the country, but in the central and western sections, part of the rainy season generally comes between April and June and the remainder between September and November. Also because Venezuela lies in the tropics temperature is controlled primarily by altitude, so that the delta of the Orinoco is tropical jungle and western Falcon is a tropical desert, while some of the peaks in the Andes in the State of Merida are continuously snow covered.

Naturally, therefore, the vegetation and agricultural possibilities will depend not only on soil but also on location with respect to mountains as influencing rainfall, and with respect to elevation as influencing temperature. The same factors affect, to a considerable extent, the characteristics of the people who have become acclimatized to their respective living conditions.

Vegetation and agriculture are also, of course, limited by the type of soil. In large areas on the llanos and around

their borders where they rise into the mountains the land has been burned over since the time of the Spaniards, so that most of the humus has been burned out of the soil. There are practically no commercial agricultural prospects in the llanos except in some of the narrow river bottoms.

Population

The population of Venezuela is only 3,500,000 according to the 1936 census. The concentration of this population in the central part of the country, mostly in the mountainous sections, in the west around Maracaibo and in the Andes, is shown on the map, Exhibit No. 3.

The literacy of the vast majority of the people is low. However, the government has entered upon a broad educational program which appears to be gathering momentum gradually, but such a program for a whole people must necessarily be slow in taking effect. The men who have been in the army probably form the largest group of those who have received some basic education. There is a small percentage of wealthy and highly-educated people, but most of them are in a position to solve their own economic problems.

The government's school of veterinary medicine is an important phase of education for an agricultural nation. In its agricultural schools, however, the tendency is to instruct students more in theory and for office or professional work in teaching or in the agricultural ministry, rather than to teach practical farming to boys who will have to earn a living at it. For example,

the bulk of the students in what is called the Practical School of Agriculture (Escuela Practica de Agricultura y Centro de Demostracion) at Maracay, were not farm boys and their instruction was observed to be on a white collar basis.

In spite of the illiteracy of a majority of the people, they are generally above the average of intelligence. This has been the experience of the oil companies which have been able to develop locally a considerable body of skilled and semi-skilled labor and clerical help.

The standard of living and the purchasing power of the great mass of the people is very low principally because of the general inefficiency of labor and the underdevelopment of the nation's agriculture. Many of the people living in the more populous sections and most of the people in other sections of the country are farmers living on a bare subsistence basis. They live on the meager products of their small farms and have practically no purchasing power.

Living Conditions

In many parts of the nation, Venezuela lacks the most elementary forms of sanitation and that condition is reflected in the health of the population. The Government has been making heroic efforts to correct this situation and in many areas has made considerable progress. But the task is an enormous one not only in capital investment but in education of the people so that the program must necessarily be one of generations rather than for years.

The food supply for the vast majority of the people has been insufficient in quantity, poor in quality and much of it is seriously infected. This has been caused partly by the low standard of living, partly by the lack of organized agricultural development and partly by the lack of initiative and knowledge on the part of the people.

The Government is taking steps to improve the water supply and sewage situation, and to spread education on sanitary matters. However, little has been accomplished toward making available sufficient supplies of sanitary food products of the high protein and high vitamin type which are essential to health and endurance. The Government already has made considerable progress in providing many towns with better and more plentiful water, but much still remains to be done.

As a cumulative result of inadequate sanitation and improper, insufficient and often infected food products, living conditions and the health of a large proportion of the people are in a subnormal condition. Among the principal scourges which are holding Venezuelan people back are malaria, dysentery of various forms, venereal diseases, hook worm, tuberculosis and leprosy.

One of the great problems of public health is that living and economic conditions in practically all of the outlying sections of the country preclude the possibility of inducing doctors to live there. As a result, the only professional medical attendance is in the large cities and even there it is handicapped by lack of education and experience in the profession and among the people. There are not enough experienced doctors.

Naturally, accurate data concerning the causes of death are not available under these conditions. The only data available in Government statistics indicate that 60 per cent of the deaths in the country are from "causes not specified or badly defined". The statistics do indicate, however, that the mortality rate among infants and small children is very high. The Government is devoting special attention to this problem and is making some progress in the populous sections where medical aid and education can be offered.

Cost of Living

The great need of Venezuela which is capable of reasonably immediate fulfillment is to improve materially the quantity and quality of staple foods in the national diet in order to relieve widespread malnutrition. This would benefit directly the general physical condition of the people and indirectly would increase their ability to combat disease and to cope with their tasks which, when better done, would lead inevitably to a higher standard and a lower cost of living. At present, the standard of living for the majority of the Venezuelan people is much too low, being at the bare subsistence level.

On the other hand, the cost of living in Venezuela has been described by many authorities as the highest in the world. Certainly the cost of living according to North American standards is very high, but this probably represents the cost of high living when compared with the mass of the Venezuelan population. Nevertheless, the cost of the products that the masses of people can purchase are high in proportion to the

value of the national production.

Such a high standard of living as that prevailing among the well-to-do nationals and foreigners in the large cities is certainly desirable. It is almost certainly, however, so far above the cost and the standard of living of the majority of Venezuelans as to distract attention from the main problem involved in their low standard of living caused basically by the low national production per capita.

GOVERNMENT OF THE UNITED STATES OF VENEZUELA

Constitution

The United States of Venezuela is governed within the framework of a Constitution, similar in most of its essentials to that of the United States of America, as it affects the rights of persons and their property in relation to the public and the Government. The Venezuelan Constitution, however, goes much further than that of the U.S.A. respecting the rights and privileges of labor.

Organization

Venezuela has 20 states, two territories and a federal district. The federal government is divided into three branches, legislative, executive and judicial. The Legislature has two houses, the Senate and the Chamber of Deputies. The Deputies are elected by conventions representing the Municipal Districts, one Deputy for each 35,000 inhabitants. Two Senators from each state are elected by their respective state legislatures. Both Senators and Deputies serve four years.

The President is elected by Congress for five years and the Constitution provides that he cannot succeed himself. Final judicial power rests in the Federal Supreme Court of seven justices located in Caracas. The justices are appointed for five-year terms by Congress. There are the usual lower courts.

Progress of the Government

Prospective industrialists naturally are concerned with the relations of the government toward its people and industry.

Since the first decade of the present century, the Government has raised the nation's international credit to a high standard, retired the entire outstanding foreign debt and established an excellent international reputation for fair dealing in its relations with foreign capital and business. Furthermore, the currency has been maintained on its original gold franc basis. Today, the United States of Venezuela has no foreign debt and little internal debt, direct or guaranteed.

A creditable statistical bureau has been established and the current information available to the Venezuelan public and to prospective investors in Venezuela is more complete than that provided by the governments of many larger countries.

A monumental program of highways, bridges, harbor improvements, water supply and sanitation has been laid out and considerable progress has been made toward its completion, although much more remains to be done. Free hospitals and clinics have been established and schools for primary instruction have been set up throughout the country in rural areas as well as in the cities.

However, it will be some time before the full benefit of what has been done will be reflected among the people. There are various indications that schools, clinics and hospitals have been constructed and equipped considerably faster than adequately-trained personnel has become available to operate them.

Financial Policy

The financial policy of any government is often difficult to appraise, particularly as it may affect the safety and

the earning power of foreign investments. When all factors that affect foreign investments are considered, the predominant one is the record of past performance. Unfortunately, Venezuela's record gives little information upon which judgment of the future financial treatment of either national or foreign investors may be based.

During most of the first decade of the present century, foreign investors received little consideration and the financial affairs of the Venezuelan government became badly involved externally and internally. In the course of the succeeding 30 years, the entire external debt has been retired, and a policy of dealing fairly with foreign investors has been maintained.

For many years it has been the policy of the Venezuelan government to raise approximately two-thirds of its revenue from customs import duties and taxes and royalties on mining and petroleum operations. The revenues from mining operations (as distinguished from petroleum) have been relatively small. The balance of revenues has been secured mainly from the stamp taxes and taxes on cigarettes and liquors. The income from miscellaneous sources has varied widely from year to year. Exhibit No. 4 shows the sources of government revenue in recent years.

A careful examination of the legal customs tariff schedules does not give a true picture of the tariff situation due to the exemptions on government imports and "exonerations" given to other imports in the general public interest.

From the standpoint of the national as well as the foreign investor, the increases in the cost of government have been

disturbing, particularly when coupled with the high exchange rate of the bolivar, high wages, very expensive and uncertain social and labor obligations and the inefficiency and low productive capacity of labor. Moreover, the cost of complying with labor laws and social obligations has been steadily increasing. The vast cost of the social and public works program appears to have been a greater burden on the economy of the country than it can afford to carry. The rapid growth of the burden of Federal government expenditures which have doubled in the last 10 years, is shown in the following table:

Federal Expenditures of the United States of Venezuela

<u>Year</u>	<u>Bolivars</u>
1931-32	Bs. 166,372,608
1932-33	161,899,071
1933-34	153,924,974
1934-35	178,917,656
1935-36	233,186,446
1936-37	285,316,875
1937-38	313,068,700
1938-39 (Estimated)	361,390,675
1939-40 (Proposed)	360,259,911
1940-41 (Proposed)	343,817,906

(See Exhibit No. 4 for further details.)

Foreign Exchange

At the present time, the country is having some difficulty in providing sufficient foreign exchange, particularly United States dollar exchange, for its requirements. The government has issued a decree which outlaws the free exchange market. The government purchases dollar exchange from the petroleum companies at Bs. 3.09 to the dollar and resells it at Bs. 3.17 to

the dollar, making therefore a gross profit of Bs. 0.08 per dollar, or approximately 2.5 per cent on the volume of business handled.

This exchange difficulty seems to have arisen from three principal causes, namely-

- (a) The closing by blockade of the country's European coffee and cacao markets which normally take about 70 per cent of such exports.
- (b) Contraction in developing petroleum production facilities caused by the cumulative effects of the 1938 petroleum laws, the government's position regarding exonerations and the restriction of European petroleum markets, thereby reducing the oil companies' requirements for bolivars.
- (c) Abnormal imports by Venezuelan merchants after the outbreak of war caused by fear of higher prices as well as shipping and exchange difficulties.

National Income and Cost of Government

The government has published a vast amount of data bearing upon the sources of wealth of Venezuela, but no figures have been found that give an estimate of the total wealth of the nation. However, basic data are available from which to compile a rough estimate of the national wealth by utilizing official government figures as a base and applying factors based on observations and experience.

Such calculations indicate a national wealth somewhere in the order of 4-1/2 billion bolivars divided roughly in the following proportions:

Approximate Division of the National Wealth

	<u>Bolivars</u> <u>(Thousands)</u>	<u>Per Cent</u>
Agricultural Wealth including Live Stock and Forests	Bs. 1,500,000	33%
Real Estate in Towns and Cities	800,000	18
Investments of Oil Companies	1,200,000	27
Banking, Industrial and Commercial, and Mining Capital	<u>1,000,000</u>	<u>22</u>
Total	<u>4,500,000</u>	<u>100%</u>

Based on the relationship of average annual income to national wealth of other countries in approximately the same stage of economic development as Venezuela, an average annual income of about 20 per cent may be expected, which would be equivalent to something of the order of 900 million bolivars annually.

On the basis of this income the national government in recent years has been taking something more than a third of the entire income of the country for its operation. The United States of America with its highly developed industries, agriculture, commerce and finance and with the added advantages of a temperate climate, has been having the utmost difficulty in supporting the burden of governmental cost - federal, state and local - that has been estimated to be in the neighborhood of 20 per cent of its national income.

Even though a large share of the Venezuelan cost of government is carried by the petroleum industry directly and indirectly, the cost of government nevertheless constitutes a burden on the economy of the entire nation of Venezuela and is a serious obstacle against the development and increase in production of its industries and its agriculture. Obviously, cost

of government that requires such a high proportion of the national income must be a major factor in sustaining the high cost of living.

Taxes

The federal government has certain exclusive taxing powers over such things as inheritances, registration of documents, matches, liquors, gasoline and tobacco. It turns over to the states each year, in proportion to their respective populations, 20 per cent of the taxes collected which provides the states with the major portions of their incomes. There are relatively few cases of overlapping federal and state taxation, most of these being the result of consumption taxes levied by many of the states on various consumers' goods sold within the respective states. These taxes are in the nature of import duties into the several states. Questions have been raised concerning the legality of these consumption taxes. The states do have the power to impose any kind of special taxes that are not inconsistent with federal taxation. Therefore, in the case of a business which is the only one of its kind or size, it is understood there is no practical limit on the variety or number of special taxes that may be levied against it except where contractual obligations exist.

The stamp and sealed paper taxes are effective on a great proportion of all business and legal transactions. These taxes individually do not appear to be excessive in amount but they are an extreme example of nuisance taxes and they amount to a substantial total for the average business house.

There is no real property tax in Venezuela except a small frontage or improvement tax on urban property only, neither is there an income tax. There are no corporation taxes as such and the registration fees and stamp taxes incident to the formation and continued existence of corporations do not appear excessive. There is a tax of one-tenth of one per cent on gross cash sales and two-tenths of one per cent on gross credit sales.

The government system of compensating officials on the basis of the fees or fines that they impose or collect has been stated to be a serious cause of the lack of business confidence among commercial and industrial executives.

Regulations and Permits

A North American industrialist investigating the prospects of investing in Venezuelan industry must be willing to accept delays uncommon in his own country in carrying on business. Official permits are required for many types of simple business transactions. Although the individual costs of these permits may not be great, in the aggregate they sometimes amount to sizable sums. The uncertainties, complications and delays entailed in securing many required permits constitute an appreciable obstacle confronting a foreign individual or corporation which contemplates industrial development in Venezuela. The regulations governing the issuance of many permits are reported to be so complicated that legal assistance is necessary which, of course, adds heavily to the expense as well as the delay.

Homestead Laws

LABOR

The laws and regulations that govern the conveyance of titles of public lands to citizens who settle upon the land and clear and improve it are entirely too severe and complicated. There are indications that many such "conuqueros" who did not know their rights have been driven off the land they had cleared and improved, by minor local officials.

If the homestead laws and regulations were simplified so that a settler could get a conditional title to a small tract of public land upon application and final title within 2 or 3 years provided he completed reasonable requirements as to clearing and improving the land, the living conditions of the small conuquero and the national agricultural economy would be materially improved.

Social Security embraces a national savings fund, life insurance, insurance covering invalidity, maternity, old age, accidents and occupational illnesses. The amounts that must be contributed by the employer vary upwards from 2 per cent and to a large extent these amounts are determined by the desire of the employer, who must contribute an equal amount with the employer, and by certain interpretations of the laws by the local officials. The law is complicated and various employers of labor have estimated their total costs of complying with Social Security to be in the neighborhood of 10 per cent of the payroll. The Social Security laws also provide in certain cases for profit sharing of the industry with its employees.

LABOR

The labor laws in Venezuela are complicated, indefinite and excessively burdensome to industry. There is a minimum wage law which provides that wages are to be determined in different industries and branches thereof by committees to be named by the federal executive, but to date no steps have been taken toward enforcement. No industry can tell, however, when such laws will be applied or to what extent they may be applied and the uncertainty as to how these laws are to be administered and what the employer's obligations will be under them, is of serious concern to prospective investors.

Any employe discharged is entitled to an indemnity of one-half month's wages for each year of continuous service. Social Security embraces a national savings fund, life insurance, insurance covering invalidity, maternity, old age, accidents and occupational illnesses. The amounts that must be contributed by the employer vary upwards from 2 per cent and to a large extent these amounts are determined by the desire of the employe, who must contribute an equal amount with the employer, and by certain interpretations of the laws by the local officials. The law is complicated and various employers of labor have estimated their total costs of complying with Social Security to be in the neighborhood of 10 per cent of the payroll. The Social Security laws also provide in certain cases for profit sharing of the industry with its employes.

Compared with other tropical countries, wages are unusually high in Venezuela. The actual rate for common labor varies from a minimum of approximately Bs. 3 per day in some outlying sections to Bs. 9 to 10 per day paid by the oil companies. The excessively high cost of Venezuelan labor, however, is due as much to the incompetence of most of the labor and its inability to perform anywhere near the amount of work in a day that is customary in other countries as it is to high wages.

In the main the low labor production is a result of the lack of strength and endurance in the average laborer which is caused in most cases by improper and insufficient nutrition, diseased bodies and frequently both. In addition, however, few of the workers either by inheritance or training are adept at the manual industrial trades. One of the key problems in Venezuela is to make available at a reasonable cost to the working people the high-protein and high-vitamin foods that are the basis of health, growth and strength, such as sanitary beef, pork, poultry, eggs and milk.

Employers pretty generally have complained against the carelessness and lack of responsibility of labor, particularly in the operation and maintenance of expensive mechanical equipment. Many have stated that it does not pay to purchase expensive equipment because it is handled so carelessly and destroyed so quickly. Numerous evidences of this were observed.

TRANSPORTATION AND COMMUNICATIONS

Highway Transportation

Although the mileage of improved highways is relatively meager, it probably is fairly ample in proportion to the population and the density of traffic. For this reason and because of the enormous expense of building and maintaining an extensive network of highways, immediate further development of the highway system may well be limited. In the highway development to date, greater emphasis might have been placed to advantage on supplementing the coastwise navigation and railroad routes and on improving important sections of existing highways which now restrict the flow of traffic.

There are four types of roads in Venezuela, as follows:

1. Concrete.
2. Hard-surfaced: Bitumen or Gravel.
3. Other All-season: Dirt roads which are subject to only temporary delays of a few hours or days in some sections due to flooded fords, landslides, washouts, etc. The government's program for bridges, revetments, retaining walls and relocations will gradually eliminate these sources of delay.
4. Dry Season: Dirt roads generally impassable by motor vehicles in the wet months. On the llanos, in many cases, these are merely tracks worn by use; in the mountains they are generally narrow, steep, tortuous and rough.

The concrete and other all-season roads are shown on the appended map, Exhibit No. 5.

In the southern states there are practically no all-season roads. In the eastern states, the all-season roads are principally those built by oil companies, for their own use and open to the public or for the government. In the Andes, there is the Transandine Highway which links the Colombian border, San Cristobal and Merida with the northern part of the country and a good system of connecting roads around San Cristobal.

Out of Maracaibo there are good roads leading south-east, southwest, northwest and northeast, notably the important highway from Palmarejo to Motatan. Also, in the western group of states is the important link in the Transandine Highway between Barquisimeto and Motatan; a large part of the section between Barquisimeto and Carora needs to be relocated. Published maps also show all-season roads from Barquisimeto north to Sabaneta, southwest to Biscucuy and south to Acarigua.

In the important central group of states, the highway system covers the principal needs of this populous section as well as the mountainous terrain permits. The heart of this part of the highway system is 142 miles of concrete road from La Guaira to Puerto Cabello through Caracas, Maracay and Valencia. There are three important concrete roads connecting with this main road, first, to San Juan de los Morros, 35 miles long, which is the only route from the central part of the country out onto the llanos and thence extending to the east and south; second, a loop around the southern side of Lake Valencia, and third, from Valencia to the Carobobo battlefield; a dry-season continuation of this road leads to the llanos and forests of

Cojedes, Portuguesa and Barinas. There are about 75 miles more of connecting concrete roads, but they are unimportant for traffic except a 6-mile spur from Caracas to Petare.

Linked to the system of concrete roads in the central group of states are six important all-season roads. West of Puerto Cabello, the Transandine Highway branches off to go through San Felipe to Barquisimeto. Southwest from Valencia is the road which runs along the northwest margin of the llanos from El Pao to Barinas. South from San Juan de los Morros is the road to Calabozo and Palenque. South from Caracas is the road to Ocumare del Tuy and Cua. East and south from Petare are the roads to Guatire and Santa Theresa, respectively. The few remaining all-season roads in the central section are relatively unimportant for traffic.

Automobile buses and trucks carry large numbers of passengers and large quantities of freight wherever roads permit - and in some places where roads are not recognized as suitable for motor traffic. Many of the buses and trucks are badly overloaded and with loads badly distributed; this, plus the condition of many of the roads, tends to shorten the life of these motor vehicles and, what is more important, increases the maintenance of the roads. Nevertheless, schedules are good and rates reasonable; for example, buses are scheduled to leave Caracas every day for Valera (Trujillo State) a distance of 401 miles with running time of 26-1/2 hours and fare Bs. 18; buses are scheduled to leave for Bogota, Colombia three times a week, the distance

being 1,106 miles, the running time 72 hours and the fare Bs. 100. Naturally schedules are subject to delays on account of road conditions. Truck service is also plentiful and at reasonable rates in the populous central section of the country as indicated by the following examples:

Examples of Trucking Rates

<u>Route</u>	<u>Miles</u>	<u>U.S. Dollars Per Metric Ton-mile</u>
Caracas-La Guaira	22.4	\$0.188
Caracas-Valencia	86.0	0.047
Caracas-Puerto Cabello	120.0	0.077

In other parts of the country, the reliability and cost of trucking vary with the kinds of roads, the presence and keenness of railroad competition, and the keenness of competition between truck operators. For example, cement can be brought 385 miles into the Andes from Puerto Cabello to Merida for four cents (U.S.) per metric ton-mile.

Air Transportation

Air transportation of passengers and mail has become an essential factor in the development of Venezuela. Because of the barrier of mountains along most of the northern coast and the distance between various population centers, the airplane provides an important and economical form of transportation, fast as well as flexible.

The regularly scheduled air routes are shown on the map, Exhibit No. 5. Pan American Airways provides, through connections from Miami at Baranquilla, Maracaibo and Port of Spain, six days

a week and almost daily coastal service which connects Maracaibo, Coro, La Guaira, Barcelona and Caripito with each other and with the through lines at Port of Spain (Trinidad), Baranquilla (Colombia) and Cristobal (Canal Zone). K-L-M, Dutch operated, connects Maracaibo, Aruba, Curacao and La Guaira.

The third air line, Aeropostale, government owned, is operated under the Department of War and Marine, and offers regular schedules to a score of cities, towns and villages, many of which otherwise would be poorly served or actually isolated. The foreign oil companies own and operate aeroplanes as an essential link in the supply and communications of their outlying properties.

The great distances, lack of highways and low traffic density offer possibilities for the development of air freight service.

Railroads

The railroads of Venezuela comprise, in the central part of the country, five separate but more or less connected railroads and, in other parts of the country, a series of independent railroads having no connection with one another. The central group of railroads comprises the following:

	<u>Gauge (Feet)</u>	<u>Length (Miles)</u>
1. LaGuaira to Caracas (British owned)	3.0	23
2. Caracas to Valencia (German owned)	3.5	111
3. Valencia to Puerto Cabello (British owned)	3.5	34
4. Caracas to Ocumare del Tuy (Government owned)	3.5	50
5. Bolivar Railroad from Tucacas to San Felipe, Aroa and Barquisimeto (British owned)	2.0	135

A new railroad of 3.5 feet gauge and 37 miles long, is under construction from Palmasola on the Bolivar Railroad to El Palito on the Puerto Cabello-Valencia Railroad.

In addition to this central group, the isolated railroads are as follows:

	<u>Gauge</u>	<u>Length (Miles)</u>
1. Tachira Railroad from Encontrados in the State of Zulia to Tachira Station in the State of Tachira with a branch to Cucuta in Colombia (Privately owned)	3.5 ft.	75
2. From Santa Barbara in the State of Zulia to El Vigia in the State of Merida	1 Meter	37
3. From La Ceiba to Motatan in the State of Trujillo	3.0 ft.	51
4. From Carenero to Guapo in the State of Miranda	3.0 ft.	34

Rates on these railroads generally do not appear unreasonable in view of their traffic and operating conditions.

Water Transportation

While Venezuela is about 900 miles long from east to west, there are few places where it is more than 200 miles from the Caribbean Sea to the Orinoco and Apure rivers. Moreover, navigation on Lake Maracaibo and its connecting rivers gives access to a large interior area in the west. Practically all of the industry (except a small proportion of oil production) and approximately 80 per cent of the population are located within 75 miles from tidewater.

Water transportation, except for short hauls, is the cheapest of all forms, and highway transport the most expensive on

land. This basic principle is emphasized in Venezuela where natural conditions for marine and inland water transport are favorable, whereas the mountainous terrain, the large number of streams and the heavy seasonal rains make highway construction and maintenance as well as motor vehicle operation very expensive.

Water transportation, however, has been restricted nearly to extinction in the case of coastwise traffic, by excessive port charges, delays and burdensome official regulations. Certain regulations and charges naturally are necessary, but those of Venezuelan ports are so onerous that they add a heavy burden to the national cost of living and produce proportionately little net revenue for the government.

To be acceptable by shippers, water transportation requires low rates and regularly scheduled sailings without delays or unnecessary expense in the ports. An efficient, regular, low-tariff coastwise and river service by small motor vessels of from 200 to 700 tons capacity, equipped with some refrigerated cargo space, is one of the most badly needed things in Venezuela. A few vessels are operating now and necessarily charge high freight rates but an adequate service at reasonable freight charges hardly can be expected until a radical change has been made in the port charges and the official delays that now bear so heavily on small coastwise vessels. Such essential coastwise traffic does not require appreciable port development.

If the government port charges and regulations can be modified so as to eliminate the present abuses, delays and ex-

pense, the highway construction program could be coordinated with water transportation along the coast in a way that would save not only many millions of bolivars in the cost of highway construction and maintenance, but would provide lower overall transportation cost. The distances between many points in the easterly-westerly direction are too great for economical highway transport, whereas the distances from the ports and Lake Maracaibo to inland points are relatively short and generally adaptable to highway transport.

Communications

Postal Service

The postal service covers the whole country pretty effectively and appears to be well organized and operated. The air mail service, both interior and foreign, and service in the city of Caracas were particularly efficient.

Ordinary mail has to be carried to destination over the highways and is therefore subject to their limitations. Air mail, however, supplements this service to the interior and is carried by Aeropostale to all parts of the country as heretofore described under the caption Air Transportation.

Telephone and Telegraph

No distinction is made in government data between the telephone and telegraph service provided, but most of the government service is by telegraph. A day and a half seems to be the normal time for delivery of a telegram. In 1939 there were 325

telegraph offices which did a total business of about \$745,000; 15 offices handled more than \$10,000 worth of business each, totaling about \$395,000 or 53 per cent of the country's total.

An English company operates the telephone company in Caracas with dial instruments. It is difficult to secure new installations.

The government also operates radio-telegraphic service through 18 stations the income of which was about \$420,000 in 1939.

Foreign companies offer international cable, radio-telegraph and radio-telephone service through offices in Caracas and Maracaibo.

CONDITION OF INDUSTRIES

General

Venezuela is essentially an agricultural nation. Its market for industrial products is small for although it has a population of 3-1/2 million people, probably there are not more than 800,000 to 1,000,000 of these people who can be considered consumers of manufactured products. The markets, therefore, are small and widely scattered both of which considerations add to the difficulties and risks of economical manufacture and distribution of many articles of consumption.

In proportion to the size of its market, the nation is pretty well industrialized already. While there are undoubtedly opportunities for a number of relatively small industries, there appears at present little opportunity for the development of new industries of substantial size. Many of the nation's existing industries operate only by the grace of the high import tariffs and it is obvious that many of these industries would be destroyed over night if the government should substantially reduce the import tariffs on the products involved.

On account of the high exchange rate of the bolivar, the low productivity of labor, and the expenses and relatively high risks of doing business, Venezuelan manufacturing industries cannot expect to compete in the world markets with those of most other countries.

An industry in Venezuela, therefore, must manufacture for consumption within the country with its immediate potential

markets limited to the volume of imports that it may replace. Moreover some of these industries are uneconomical from the nation's standpoint. They employ but few workers themselves, reach only relatively local markets and do not have the incentive of competition to improve the quality and lower the prices of their products, while maintaining their monopolies forces consumers in all parts of the nation to pay excessively high prices. There is no national economy in this. As the expense and risks of manufacturing in Venezuela are so great that there is little probability of a national industry being able to sell its product at a lower price than competing imported products, it could hardly be expected that the prices of the national manufacturer would be low enough to develop additional volume:

Venezuelan industries may be classified broadly into three groups; first, the mining and petroleum industries; second, those industries the principal raw materials for which are produced from the soil of the nation; and third, those for which raw materials must be imported. The latter industries are those mentioned above as depending exclusively upon high protective tariffs on the finished products so that the economic value of many of them to the nation is questionable.

With the exception of the petroleum and mining industries and the principal railroads, most of the industrial capital is of national ownership and is notably concentrated in the hands of relatively few families who are industrially minded and willing to appraise and to take the risks involved. There are many other wealthy Venezuelan families but they prefer to invest their

money in urban real estate, mortgages and commercial establishments or abroad. Very few of them have been willing to accept the risks involved in investing in manufacturing industries. The government itself has a large position in the agricultural processing industries through its operation of the former Gomez properties and other industries owned or controlled by it.

In general, most of those industries which are based upon the processing of national agricultural products offer substantial possibilities of development provided they can be assured of continuous and adequate supplies of raw materials of the grades and qualities needed. This, in the present underdeveloped state of the agricultural and livestock industries, points toward vertical integration. Some of the more important industries are discussed below.

Dairy Products

One of the more important needs of the nation is the availability of an adequate supply of pure dairy products at reasonable prices. The market prices of dairy products are high and a well administered dairy products business undoubtedly would be successful if it could be assured of an adequate supply of pure milk which under present conditions is impossible. Venezuelans appear to be fond of ice cream, yet ice cream reasonably good from a North American standpoint, can be found in only a few places in Venezuela.

Vegetable Oils

The pressing of vegetable oils is a sound industry because its raw materials are produced within the nation and its finished products are consumed there. The oils are used in the

margarine, vegetable shortening and soap industries and the by-product meals are available for high-protein live stock feeds, all of which can be absorbed by the nation.

Leather

The nation supports a substantial tanning industry but the products are not of high grade. For example, no top leather for shoes is made and no leather is split. As nearly as could be determined, the major fault is not in the tanning processes but because sound hides are not available locally. The presence on the hides of an excessive number of large brand marks, tick holes and nuche blisters eliminates the possibility of producing first-class sides of leather. With more careful management of a part of its cattle industry, hides of better quality could be supplied for making high-grade leather that might form the basis for a real shoe industry.

Shoes

The manufacture of shoes in Venezuela hardly can be called an industry, since shoemakers make all of the leather shoes in retail shops. One shop in Caracas, however, does supply shaped parts to the trade. There is also one factory in Caracas which manufactures canvas shoes and rubber and wood heels. The domestic shoes are expensive and imported ones excessively so and this doubtless accounts for the greater part of the population in the outlying districts wearing alpargatas or sandals. Most of the young children and many adults go barefoot.

Moderately priced shoes are badly needed by the entire population from a health standpoint to offer better protection against infection with hook worm and other ground and water-borne parasites. This is one of the few industries where a substantial market is indicated with a reasonable possibility of profit.

Textiles

There is a substantial textile industry which has to use nationally produced cotton by government regulation and on account of the high import duties. As most of the nationally produced cotton is of an exceedingly poor and uncertain grade, textile production of ordinary fabrics is difficult and of high-grade ones impossible. If the production of a fair grade of cotton can be maintained on a substantial commercial basis, there appears little reason why the Venezuelan textile industry would not of itself expand to a point where it might replace a substantial fraction of the textile imports.

Meat Packing

Meat packing operations are so closely identified with the cattle industry in Venezuela that they are treated under live stock operations.

The government owns the largest abattoir and packing plant in Venezuela, operating it through the Department of Agricultura y Cria. The quality of the meat products and hides produced by the meat-packing industry cannot be any better than the quality of its cattle supply and this is mostly low grade.

A number of cities have municipally-owned abattoirs, but the slaughtering of cattle in other parts of the nation is conducted by very small and relatively simple plants as the Venezuelan custom is to market the beef the day after slaughter before the animal heat is out of it so that expensive refrigeration facilities are not used.

Cement

There are two cement plants in Venezuela, one on the outskirts of Caracas and the other in Valencia. The plant in Valencia has been designed, constructed and operated by a prominent Danish firm and it should make a high-grade cement. It has not been in operation long enough, however, to appraise the quality of its products. The product of the plant in Caracas has not been considered particularly high grade but the owner of it has just completed a new mill and should be in position to turn out a better product than heretofore.

With these two recent increases in cement producing capacity, it is questionable whether another plant could be justified. There is a proposal to build a plant in the neighborhood of Maracaibo on Toas Island if the available raw material supplies should prove adequate and satisfactory. Cement is still being imported into Venezuela but an appreciable part of the imports is comprised of quick-setting cements used by the oil companies and which are not now manufactured locally. The national plants have been protected by a duty of Bs. 55 per metric ton which has been recently reduced to Bs. 20 per metric ton, compared with the average consular

invoice value before duty in 1938 of Bs. 26.35 per metric ton. It is clear that this industry depends much upon the tariff.

Paper

There are two paper mills, both manufacturing wrapping and bag paper from imported pulp and local waste paper. It is estimated that these mills manufacture a substantial portion of the nation's requirements. Additional equipment for these mills has been contracted for.

Soap

The soap industry manufactures principally the common laundry soap. It would appear that the natural expansion of the present industry would be ample to take care of future needs. Soap is protected by a duty ranging from Bs. 2 to Bs. 4 per kilogram.

Wheat Flour

Imports of wheat flour were approximately 29,000 metric tons in 1938 compared with an estimated national production of about 4,500. Under the present tariff setup, there would be little incentive to mill imported wheat in Venezuela. Furthermore, the milling of wheat requires large amounts of power and comparatively little labor so that there would be little, if any, national advantage in milling imported wheat.

Tobacco

Venezuela is practically self-sufficient in its tobacco and cigarette production. There are three cigarette factories in Caracas which use locally-grown tobacco and produce perhaps

98 per cent of the local cigarettes consumed. Cigars and snuff are made in all parts of the country where tobacco is grown. Imported cigarettes amount to approximately 15 per cent of the total consumption. There appears to be ample production of tobacco for requirements although occasionally there have been temporary shortages.

Furniture

With the exception of one plant which kiln dries its lumber, there is no furniture manufacturing as understood in North America. With the exception of the plant mentioned, furniture is made from unseasoned lumber and is mostly built by hand in very small shops, a large part of it being built to order. People in the industry indicate that the appreciation of good furniture is so limited and costs so high that the additional cost of kiln drying lumber would not be warranted. While there is definite need for a modern plant that would manufacture good furniture, it is questionable whether the market for a better grade product than is now available would be large enough to justify manufacturing it on a production scale.

Beverages

Rum of various grades is manufactured widely throughout the country. Carupano rum is of excellent quality, particularly when it has been well aged. The supply of this old Carupano rum is limited and there should be prospects for developing an export market for it if it can be produced in greater quantities and the

quality maintained. There are five breweries having a collective capacity of approximately 2,000,000 liters per month, which is being extended to about 2,600,000 liters. The quality of the beer produced is reasonably good and some of the breweries were the cleanest and most efficient plants visited. There is also a large market for soft drinks which is supplied by numerous bottling plants in the larger cities. The product of some of these bottling plants is seriously questionable from a sanitary standpoint. It would appear that local beverage industries should be capable of meeting market expansion.

Sugar

The growing of cane and the manufacture of sugar are so closely allied that they have been treated in the chapter on agricultural industries.

Miscellaneous

There are many miscellaneous industries but all are small. The most suitable opportunities in the miscellaneous field would appear to be the preparation and packaging of specialty food products under sanitary conditions. The difficulty facing the establishment of this type of industry would be the acquisition of its regular supply of sanitary raw materials.

Fisheries

Venezuelan waters abound with good fish. As a whole, the fishing industry is small and primitive. There are two canning plants, one at Cumana and the other on the Isle of Margarita.

A new fishing company has been organized recently by a group of Basque fishermen which at present is merchandising fish, principally in La Guaira, Caracas and Maracaibo. Fish is expensive, the retail price at Caracas in August, 1940 being Bs. 1.75 to 2 per kilogram for kingfish (carite) and sea bass (mero) and from Bs. 0.75 to 1.50 for red snapper (pargo). Generally speaking, facilities for the handling and distribution of fish are primitive, except for the fish being handled by the above mentioned Basque group.

Most fish are caught in locally-constructed metal traps. Nets have not proved practical because of the large variety of fish caught and the difficulty of marketing any of the types except the red snapper, kingfish and sea bass. Such choice fish as pompano, sole, bluefish and red mullet are very difficult to sell.

Public health undoubtedly would be improved by an increased consumption of fish which is a high-protein and high-vitamin food, provided such fish could be distributed in fresh and sanitary condition and at prices which nearly everyone could afford. The government might well assist in educating the people to make fish a more important item in their diet. On account of the high cost of conducting operations in Venezuela, prospects for an appreciable canned fish business do not appear particularly bright. However, there do appear possibilities in the rapid, efficient distribution of fresh fish at lower prices.

Petroleum

Although no study has been made of the petroleum industry as such, its effect on the economy of the nation requires comment. The production of petroleum and the refining and marketing

of its products constitute one of the highly-competitive industries of the world. Petroleum deposits have little value until they are developed and their development is not only expensive but highly speculative. The development of new low-cost fields anywhere in the world naturally tends to take the markets away from existing high-cost fields.

As noted previously in this report the investment in the petroleum industry constitutes about 27 per cent of the national wealth. With respect to national income, the Venezuelan Ministerio de Fomento has estimated that the petroleum industry directly provides about 25 per cent of the total; if indirect effects of the industry be included it seems probable that this figure would be increased to 35 or 40 per cent of the total.

The direct contribution to the national income during the last three years, as reported by the Ministerio de Fomento, has averaged about Bs. 231,000,000 annually, composed of about Bs. 126,000,000 in the form of salaries, wages and the purchase of materials and services in the country and of about Bs. 105,000,000 paid to the National Treasury in the form of royalties, taxes, fees and duties. The Ministry has estimated that the Treasury collects an additional Bs. 7,000,000 in taxes, etc. directly resulting from the activities of the petroleum companies. These payments to the National Treasury have been about 30 to 35 per cent of its total revenues from all sources and have constituted a total charge against petroleum of about 18.5 per cent of its market value at the port of embarkation. Consistently smaller realization returns of crude oil in recent months have somewhat altered these figures.

Of the Bs. 231,000,000 required by the petroleum industry about Bs. 8,000,000 has come from sales of refined products within Venezuela according to the Ministerio de Fomento and the remaining Bs. 223,000,000 has been secured through the National Office for Centralization of Exchange. This not only has provided a substantial portion of the nation's requirements for foreign exchange, but also has given the Exchange Office a gross profit of approximately Bs. 5,750,000 a year.

In the field of exports, petroleum naturally is the predominant factor; this is partly because Venezuela in recent years has become one of the largest oil-producing countries in the world while its own consumption is relatively small; and partly because other exports except gold have decreased in volume and value for reasons which are largely independent of the petroleum industry. Since practically all of the other exports except gold are coffee and cocoa, the reasons for their diminishing exports are discussed under the headings of those products. The trends of the values in bolivars of petroleum (including its derivatives and a negligible amount of asphalt), gold, other products and total products exported can be observed in the following table as reported by the Ministerio de Fomento:

Value of Petroleum and Other Exports
(Thousands of Bolivars).

<u>Year</u>	<u>Petroleum</u>	<u>Gold</u>	<u>Other Products</u>	<u>Total Exports</u>
1924	65,514	1,933	146,039	213,486
1925	137,497	2,616	189,886	329,999
1926	246,604	4,648	144,151	395,403
1927	280,815	4,592	158,708	444,115
1928	466,942	5,363	137,250	609,555
1929	593,610	4,989	179,961	778,560
1930	634,055	5,845	122,594	762,494
1931	547,772	8,735	95,111	651,618
1932	531,635	10,485	86,139	628,259
1933	553,210	10,729	53,608	617,547
1934	608,495	12,494	50,954	671,943
1935	649,335	14,261	48,134	711,730
1936	684,226	14,711	69,526	768,463
1937	770,042	15,315	86,106	871,463
1938	828,265	14,897	45,078	888,240
1939	895,338	17,622	40,377	953,337

Source: Ministerio de Fomento

The petroleum industry not only has made immense additions to the national income but it has brought other benefits along with its development. Among these benefits are the following:

The petroleum industry pays higher wages and salaries than other sources of employment. As near as could be determined, most Venezuelans would prefer to work for the petroleum companies rather than for any other private employer.

It has improved the health and living conditions of its employes far beyond those generally prevailing in the nation.

It has provided the government with large amounts of foreign exchange, even during the years of world depression.

It has made large annual payments to the National Treasury without which many of the construction and social activities of the government would have been impossible.

It has provided a large source of employment and has been a major contributor to the national income.

Several national problems have arisen parallel to the development of the petroleum industry which have not been caused by and cannot be solved by the industry itself. They have become possible through the prosperity created by the petroleum industry but they have been caused principally by the efforts of the government to improve the living conditions of the people at too rapid a rate.

Some of these problems are:

- (a) the great increase in the number of government employes, many of whom have been drawn from the farms to the City of Caracas;
- (b) the artificial boom that has been created, especially in Caracas, as a result of the rapid expansion of government functions and the heavy influx of government employes, all of which has distracted attention from the necessity of stimulating free enterprise in industry and a balanced agriculture;
- (c) the high cost of government which has resulted from the unprecedented expansion of government personnel and the great public works and social programs; and
- (d) the underdevelopment of agriculture which has become obscured because foreign exchange has been available to import quantities of staple food and other agricultural products which could be produced within the nation.

Each of these problems has emanated from government policies and they can be solved only by a change to more practical and realistic policies based on the existing conditions. These problems must be recognized fairly if they are to be solved in ways which will serve the best future interests of Venezuela.

Tourists

Venezuela's magnificent mountain scenery, numerous hot springs and warm, dry climate from December through March could be made powerful attractions for North American tourists. Moreover, the climate is delightful all the year round in the elevated sections. Its distance from New York gives just about the length of sea voyage that tourists like to take, and if time should be important there is excellent air service. Development of tourist trade would naturally improve both forms of transportation.

The Venezuelan government has recognized the desirability of foreign tourists and has created a tourist bureau to promote this industry but the obstacles to its development are more basic than those of promotion. There is not a hotel in Venezuela that remotely approaches the standard that is customary in North America or Europe. Hotels have been erected at Maracay, Macuto, and San Juan de los Morros which could be most attractive as resorts, but they have not been well maintained, do not serve food anywhere near comparable with European or North American standards and, what is most objectionable to tourists, do not maintain the working order and cleanliness of their sanitary facilities.

The hotel conditions could easily be improved but there would be difficulty in solving the food problem. Not until tourists could be assured that pure milk and water were available and that finished, seasoned beef, pork products and tender domestically raised chicken were served in the hotels, can the nation expect to meet the basic requirements of the tourist trade.

In Venezuela a sizable tourist industry would mean additional foreign exchange, added revenues for its hotels and transportation facilities, added demand for its agricultural products and more employment for its people. A well directed and sustained effort in the development of the tourist business should bring several million dollars annually of foreign exchange into Venezuela in normal times. Tourist trade has been one of Europe's largest and most profitable industries for a long time and the bulk of Europe's tourists have been North Americans.

Mining

The present mining industry is principally gold. Its future depends much upon how long the Treasury Department of the United States of America will continue to buy all the gold that is offered to it at \$35 per ounce.

Scientific exploration for other minerals has been limited so that, although many deposits of numerous minerals are known to exist, the richness, extent, workability and commercial value of most of them need to be appraised by practical economic geologists.

A number of mining properties have been operated on a small scale in past years and abandoned, such as the copper mines at Arca and the mica mines near Timotes. The coal at Naricual near Barcelona and in the state of Falcon is of inferior quality, although the former is still being mined by the government against economic odds.

A few miles south of San Felix on the lower Orinoco, the Bethlehem Steel Company is said to have taken up an iron ore concession. Up to the time of departure from Venezuela there was no visible evidence of exploitation.

Whether the expense of exploration of mineral resources will have to be financed by the Venezuelan government will depend principally upon the degree of liberality that is provided in concession contracts, since the government has reserved unto itself all mineral rights. Mineral exploration is highly speculative so that if private interests are not offered satisfactory odds in the terms of their concessions they cannot afford to risk the heavy expense of exploration and development.

EXPORTS AND IMPORTS

Exports

With the exception of petroleum products, the principal exports from Venezuela have been as indicated in the following table:

Exports from Venezuela (A)

<u>Export Products</u>	<u>Value (Thousands of Bolivars)</u>		
	1930	5-Year Average 1934-1938	1939
Coffee	68,041	33,417	21,273
Cacao	17,226	9,695	9,656
Gold	5,845	14,336	17,622
Skins and Hides	3,775	2,245	2,199
Live Cattle	1,671	1,923	1,684
Tonka Beans	91	860	523
Lumber	636	277	432
Other Products	<u>31,154</u>	<u>11,542</u>	<u>4,610</u>
Total	<u>128,439</u>	<u>74,295</u>	<u>57,999</u>

Note: (A) Excluding asphalt, petroleum and their derivatives.

It will be noted that exports of most commodities have been declining. The export situation on coffee and cacao, which have been the most important exports with the exception of gold and petroleum, are discussed in detail under these respective titles. The volume of gold exports is primarily dependent, of course, upon the continuation of the policy of the Treasury Department of the United States of America to purchase gold at \$35 per ounce. The possibilities of developing additional exports in specific products are discussed herein under the titles of the respective products. There appears to be little practical organi-

zation of the Venezuelan export trades, even in coffee and cacao.

Imports

The tariffs on imports have been a large source of revenue for the Venezuelan Government for many years. The following table gives an analysis of imports, together with the duties paid thereon, for each class of imports during the year 1937, the latest year in which this analysis was available. The reductions in duties as a result of the trade agreement with the United States of America became effective subsequent to 1937:

Venezuelan Imports and Customs Duties - 1937

	<u>Invoice Value Bolivars</u>	<u>Amount of Duty in Bolivars</u>	<u>Import Duty in Per Cent of Invoice Value</u>	<u>Amount of Duty 1937 in Per Cent of Total Duty Collected</u>
Food Stuffs	28,663,525	32,504,231	113.4%	25.9%
Textiles	41,806,511	39,076,456	93.5	31.1
Industrial Animal Products	4,909,877	2,309,943	47.0	1.9
Industrial Vegetable Products	2,925,291	2,389,960	81.7	1.9
Lumber, Paper, etc.	6,127,452	7,707,255	125.8	6.1
Mineral, Glass, Ceramics	8,355,041	9,070,003	108.6	7.2
Metals and Mfd. Metal Products	17,378,915	6,804,746	39.2	5.4
Machinery	44,393,676	10,825,883	24.4	8.6
Industrial Chem.	14,495,082	10,194,964	70.3	8.1
Miscellaneous	9,598,047	4,775,239	49.8	3.8
Total Dutiable Imports	<u>178,653,417</u>	<u>125,658,680</u>	<u>70.3%</u>	<u>100.0%</u>

A glance at this table shows that the import duties are high, having averaged in this particular year 70 per cent of the invoice value of the merchandise and on foodstuffs having reached 113 per cent of the invoice value of the merchandise.

As might be expected with such high tariffs, smuggling is reported to be widespread and a severe handicap to local manufacturers. Its suppression would be an expensive and difficult problem for the government.

It is a serious question whether the high duties on some products such as silk goods, etc., do not defeat themselves by encouraging smuggling. Lower duties on some products might result in an increase in government revenues by making smuggling unprofitable and substantially increasing the volume of goods legally imported.

The approximate values of imports in recent years of the principal items of merchandise on which duty was paid are shown in the following table of annual amounts:

Principal Imports into Venezuela

<u>Items</u>	<u>Bolivars</u>
Automobiles, Trucks and Accessories	Bs. 19,000,000
Cotton Piece Goods	15,000,000
Drugs and Chemicals	8,500,000
Iron and Steel, Manufactured	7,600,000
Electrical Equipment and Apparatus	7,000,000
Machinery and Spare Parts	7,000,000
Wheat Flour	5,400,000
Paper	5,000,000
Canned and Powdered Milk	4,500,000
Agricultural Tools and Machinery	4,400,000
Tanned Hides and Leather	2,800,000
Ham, Sausage, etc.	2,200,000
Rice	2,200,000
Alcoholic Beverages	2,000,000
Woolen Piece Goods	2,000,000
Sardines	1,800,000
Cosmetics	1,700,000
Linen Goods	1,600,000
Refrigerators	1,600,000
Silk and Rayon Goods	1,500,000
Prepared Foods	1,400,000
Lumber	1,300,000
Bottles and Flasks	1,200,000
Butter	1,200,000
Glass and Crystal	1,200,000
Oats	1,200,000
Sewing Thread	1,200,000
Toys	1,200,000
Wines	1,200,000
Lard	1,100,000
Barley (including Malted)	1,000,000
Cheese	1,000,000
Electric Motors	1,000,000
Paints and Colors	1,000,000
Pottery and Glazed Tile	1,000,000

In some classifications, total imports are considerably greater than the above listing of dutiable goods which does not include goods exonerated from payment of duty or goods imported free of duty by the Venezuelan Government.

An indication of the market possibilities for additions to Venezuelan industry may be obtained from the imports in the above table. Few of the domestic industries have found it possible or expedient to sell their products substantially below the price of competing imports and on account of the small size of the national market, expansion possibilities of the market do not appear particularly bright.

North America is the principal supplier of products for Venezuela but as Germany has purchased the lion's share of its coffee and cocoa crop in the past, it may be more difficult for North American exporters to maintain this position after war conditions have passed.

INDUSTRIAL INVESTMENT POSSIBILITIES

From interviews with approximately one hundred owners and executives of established industries in Venezuela, national and foreign, and more particularly with other foreign executives and owners who have investigated Venezuelan industrial opportunities and decided not to manufacture there, the various obstacles to conducting business which have been cited during the interviews may be summarized as follows:

1. The large investments required in proportion to the available market, which result from the high exchange rate of the bolivar and the uncertainty as to the extent that exoneration will be granted on the high import duties on machinery and equipment.
2. The fear that the bolivar may fall materially after their investment has been made, thereby causing an immediate loss of part of their capital.
3. The fear that if they earn profits they will not be able to purchase the exchange to remit profits not needed for expansion to their home countries.
4. The fear that the tariff on the product that they propose to manufacture will be reduced if their business shows a sign of prosperity.
5. The fear that the government itself will compete with the proposed industry after it becomes established. This fear is based on the many kinds of business now engaged in by the government and it applies to national as well as foreign industrialists and investors.
6. The fear that the government, particularly local subsidiaries, will increase taxes.
7. The lack of skilled labor and the low productivity and uncertain responsibility of labor in general.

8. The high, increasing and uncertain expenses required by the labor and social security laws.
9. Some industrialists interested in lumber or mineral concessions maintain that the conditions of granting such concessions are too onerous for a profit to be made. This condition appears to have existed in the petroleum industry since the promulgation of the 1938 petroleum laws. As far as could be ascertained, no concessions have been taken up under these laws.
10. Complicated and indefinite regulations which are said often to be interpreted arbitrarily by local officials with the power and personal incentive to inflict heavy fines for alleged infractions.
11. Excessive delays and expense in obtaining required official permits, and the high legal expenses necessary in order to comply with indefinite laws as they may be interpreted arbitrarily by each individual official.
12. High selling and distribution expense because of the small size and wide extent of the markets for manufactured products.

It is not possible here to indicate to what extent these objections to industrial investment that have been cited above may be justified, but there is no doubt that they represent widely-held opinions which probably reach the ears of nearly every foreign business executive who investigates the possibilities of investing in the industrial development of Venezuela.

In support of these objections to industrial investment which have been cited during this investigation, it has been pointed out that few important Venezuelan capitalists have taken the risk of engaging in the development of industry in their own nation but have confined their principal local investments to mortgages,

short-term loans and city real estate. Some of the Venezuelan investors in local industry are said to regard the risk so great that they need to earn a profit sufficient to repay their investments in three to five years. If this is the feeling of the local investor, how much greater must be the feeling of a foreign investor.

CONDITION OF THE AGRICULTURAL AND LIVE STOCK INDUSTRIES

General Description

Neither stock raising nor agriculture is in a prosperous or healthy condition. The llanos, which are reported to have carried many more cattle in the past than at present, vary tremendously in different localities. While there are some sections of them that undoubtedly are well fitted for cattle ranges, the greater part of these areas supports scant grasses, often inedible, and is afflicted with alternate seasons of floods and drought.

Except for the large ranches of the Lancashire Trust and Investment Company south of the Apure River, a very small proportion of the llanos is fenced. Cattle range completely wild in these sections and the survivors of the floods, drought, ticks and nuche flies are rounded up periodically, the young stock branded and castrated and the more suitable older animals cut out for the market. Bulls bring nearly as much in the market as steers.

Only on a very few ranches is there any breeding control or facilities for dipping the stock for tick control. Many of the cattle arriving at the largest stock yards in the nation at Maracay have been driven from 7 to 11 days and the appearance of most of them indicates a lack of forage and water during the drive. A certain proportion of the cattle that are driven from the llanos is pastured in various parts of the areas around Lake Valencia. These are known as fattened cattle. Practically no grain is fed to beef cattle anywhere in Venezuela.

No indications were found of a hog raising industry as known in North America. A substantial proportion of small native farmers keep a few hogs which are obliged to forage for themselves in addition to the limited amount of garbage that is available to them in such localities. Horse breeding is carried on to some extent in various parts of the nation and burros are bred everywhere. Poultry raising is in about the same category as hog raising. A large part of the small farmers have a few birds which have to shift pretty much for themselves. There are a few small commercial flocks of poultry. Small numbers of turkeys and ducks are raised in isolated sections and, like the poultry and hogs, pretty much look after themselves. In the high altitudes there are a few sheep. Goats are kept primarily for their milk and meat in all parts of the country; like the hogs and chickens, the goats rustle their own forage.

As in other tropical countries, Venezuelan agriculture has been carried on by the large haciendas on the one hand and on the other hand by the small farmers, each tilling little plots, and having no capital and no implements beyond the universal machete and occasional crude wooden plows capable only of scratching the surface of the soil. Most of these individual farmers operate on a bare subsistence basis and contribute proportionately little to the food supply of the balance of the nation or to its productive economy.

Since the development of efficient power agricultural equipment in the course of the last decade, the contrast between these two radically different types of farming has become greater.

Power agricultural machinery is relatively complicated, requires training, experience and care in its operation and adequate mechanical equipment and competent mechanics for its maintenance. The Venezuelan representatives of the farm equipment manufacturers neither carry sufficiently complete stocks of spare parts nor possess the necessary mechanical equipment or personnel to make prompt, adequate heavy repairs within the nation, except to a limited extent in Caracas. In other parts of the nation, broken or worn equipment must be shipped to Caracas for repair and it is often found to be a matter of months before it can become available again.

The difficulties of maintaining power agricultural equipment are so great that if it is to be kept in reasonably continuous operation, adequate maintenance facilities must be maintained on the spot. This is an expensive procedure for small or even fair-sized haciendas as it requires considerable capital investment in mechanical repair equipment and it would not seem to be practicable except in very large types of plantations that have been developed in the other tropical countries, such as the tea, rubber and coffee estates of Java and British India, sugar estates of Cuba, Puerto Rico and Hawaii, the banana plantations of the Central American countries and the cattle and sugar estates of Jamaica and Trinidad.

Under these circumstances, it has not been feasible for a great many of the smaller and medium-sized haciendas to purchase the power agricultural equipment that is required to operate their properties economically. As a result, much of the produc-

tive land is in bad condition from lack of preparation and the yield is lowered further by lack of cultivation.

The use of artificial fertilizers or the growing of green manuring crops in Venezuela is practically non-existent, although most of the soils are seriously deficient in mineral and humus content. Lime is seldom used although many of the soils are acid. As a result, many of them are in a starved condition which must be improved before better yields of crops can be expected.

One of the reasons for this situation appears to be the high cost of fertilizer and limestone. The only justification for this high cost is the small quantities that are used and the commercial expense and profits involved in handling them. There are many deposits of limestone near the major agricultural areas and various indications of phosphate deposits but no organized fertilizer business has been developed. The government does not impose import duties on fertilizer materials and some are produced within the nation. The principal agricultural areas are relatively close to the ocean ports so that imports of nitrates from Chile, phosphates from Florida, or in normal times potash from Germany, should be no more expensive in Venezuela than in any other agricultural countries. Transport inland from the ports is relatively inexpensive as the distances to the major agricultural centers are short.

Apparently only by operations on a large plantation scale can fertilizer materials be assembled at a reasonable cost

under the conditions that prevail now or are likely to prevail in the near future in Venezuela.

Suitable storage facilities for agricultural products wherein they can be protected against vermin and decay are extremely limited. Within the last few years, the government has built a number of silos, for storing and cleaning grain, that were intended especially for the use of small farmers so that their grain could be held beyond the harvest period. This project does not seem to have worked out too well. There are indications that the growers of grain themselves have shown little willingness to hold their grain after the harvest, even with the advantage of government loans and storage. On the contrary, much of the grain held in the government silos is understood not to be the property of the farmers who grew it but to be directly or indirectly owned by dealers or speculators.

As Venezuela is in the tropics, its temperature is principally a matter of elevation. Crops are grown from sea level to about 9,000 feet altitude. Within this range practically all products of both the tropical and temperate zones can be grown where there is sufficient rainfall and where land adaptable to them is found. However, only a relatively small percentage of the arable land is in the high altitudes so that the bulk of the agriculture of the nation is in producing tropical products or products adapted to tropical conditions.

In most places at the lower altitudes, the temperature varies but a few degrees throughout the year so that, with proper

soil conditions, water is the only limitation on the growth of crops twelve months of the year. On irrigated land and in sections of the country that have a large rainfall, two and sometimes three crops may be grown, whereas in the sections of the country where the annual rainfall is insufficient, the growing season is roughly equivalent to that in the more favored sections of the temperate zone.

Imports of Agricultural Products

The imports into Venezuela of food products which could be produced there are an indication of its underdeveloped agriculture and live stock industries. The following table shows the value of imports of some food and live stock products which could be produced in Venezuela in ample quantity for its entire population:

Value of Selected Imports (In Thousands of Bolivars)

	<u>1936</u>	<u>1937</u>	<u>1938</u>	<u>1939</u> (1st Half)
Milk - canned and powdered	1,093	2,417	4,943	3,918
Cheese	572	777	1,026	856
Butter	558	1,109	1,055	1,524
Animal fats (Stearin)	400	453	547	172
Lard	70	840	1,046	926
Rice	2,377	2,130	2,162	1,365
Potatoes (not for seed)	<u>706</u>	<u>624</u>	<u>723</u>	<u>332</u>
Total	<u>5,776</u>	<u>8,350</u>	<u>11,502</u>	<u>9,093</u>

Dairy Products

Especially conspicuous in the above table are the imports of milk, butter and cheese, which have been on the increase

and amounted to more than Bs. 7,000,000 in 1938 and Bs. 6,300,000 in the first half of 1939. Many nationals and, as nearly as could be determined, most of the foreigners including the foreign employees of the oil companies, use imported milk products exclusively because of their fear of contracting disease from local milk produced or handled under unsanitary conditions. As a result of inspection of a number of dairies, it is considered that this fear is justified in too many cases.

In the Federal District, pasteurized milk is obtainable but there is considerable indication that in some dairies at least, the pasteurization is more a matter of form or routine than a serious attempt to bring down the bacteria count in the milk. Also it is understood that a substantial proportion of the cattle which supply milk to Caracas are afflicted with tuberculosis, although recently the government has made a start toward correcting this situation. Little pasteurized milk is available in other sections.

Imported tinned butter, which is often in poor condition as a result of the long, hot sea voyage (usually not under refrigeration), is preferred over local butter mainly for sanitary reasons. For the same reason, imported cheese is often preferred though to a lesser extent, as some of the imported varieties are specialties and are consumed as a matter of taste. Good cheese could be made in Venezuela if its cleanliness could be assured.

With the high tariff on imports, a wide spread would be expected between the prices of domestic and imported food

products, but this is seldom the case.

Milk sells at retail for Bs. 0.75 per litre (\$0.22 per quart) in the Federal District, at Bs. 1.00 per litre (\$0.30 per quart) in Ciudad Bolivar and more generally about Bs. 0.50 per litre (\$0.15 per quart). In August, 1940, a good grade of domestic butter cost Bs. 2.15 per pound wholesale (\$0.68 per pound) and domestic cheese also wholesale Bs. 2.20 per kilo (\$0.31 per pound).

There would be a much larger market than now exists for dairy products if they could be produced and distributed under sanitary conditions. While some of these products undoubtedly are produced under sanitary conditions, the consumer can seldom be certain whether he is getting safe, clean and pure milk products. Dilution of milk is common practice and the water used naturally is of questionable purity. Some 30 to 40 per cent of the dairy cattle are said to be tubercular and a somewhat similar proportion afflicted with the very contagious Bang's disease.

The price of milk is high which is partially due to the lack of organized milk production, handling and distribution. The health of the Venezuelan people and everything that depends upon better public health will be measurably improved if an ample supply of pure milk and other dairy products can be provided at lower prices so that they may become more general articles of diet.

Beef Products

In discussing this and other food products, the experience of the S.O.V. commissary at Caripito and of the Lago commissaries at Maracaibo and La Salina are cited as a fairly

typical indication of the supplies now reaching important markets. The conditions in Caracas may be somewhat better but they are essentially similar.

The Standard and Lago commissaries probably get about the best beef that is available in the nation. They buy domestic beef and are large buyers, contract only for the best grades, deal only with carefully selected suppliers and all receipts are checked by experienced meat buyers. While the quality of the Venezuelan beef available at the commissaries was far superior to that on sale in Caracas, it would not compare with the beef customarily sold in the markets of England or North America. There was no appreciable finish to it as no grain is fed to cattle in Venezuela. So-called fattened cattle are merely cattle which have been on fairly good pasture before slaughtering.

Compared with other commodities, beef would be comparatively inexpensive were it not for its poor quality. Lago paid 24 cents U.S. per pound for carcasses in August, 1940. Except for a limited market in the West Indies and Colombia, there is no appreciable foreign market for unfinished cattle or beef. On the other hand, Venezuela probably could find larger export markets if it produced a better grade of beef cattle with more valuable hides; that is, not so seriously damaged by an excessive number of tick holes and unnecessarily large brand marks as is now usual. Production of better finished beef probably would increase the national consumption of beef.

Venezuelan cattle being grass fed and most of them sparsely fed, carry very little fat to produce stearin, thus accounting for the considerable imports thereof shown in the preceding table.

Pork Products

In most countries pork is cheaper than beef and the hog is known as the poor man's cow. This is not so in Venezuela. Not only does pork cost nearly 50 per cent more than beef but its quality is poorer. Lago paid 36 cents U.S. per pound for pork in August, 1940. Smoked ham and bacon as known in Europe and North America are not produced. The local product that is called bacon (tocino) is nothing like the European or North American variety of bacon. Venezuelans appear to like pork and would consume much larger quantities of it if good grades of sanitary pork products were available at lower prices.

There is no hog raising industry in Venezuela in which roughages and grain are converted into pork. Nearly all hogs are scavengers, a large part of their feed is garbage and plantains (large bananas) and they produce a carcass that has little lean meat and is heavy with soft fat, most of it suitable only for trying out into a poor grade of grease. The fat is too soft and oily to produce acceptable lard, thus accounting for the large imports which have been increasing rapidly according to the preceding table. There may be future export possibilities in the development of a sound hog raising industry.

Rice and Potatoes

Only a small part of the rice consumption is of national production. The reason for this is not entirely clear as rice is being raised successfully in some sections. There is a large market and a high price (\$0.08 per pound wholesale). Possibly its culture has been outside the traditions of the large haciendas and too hard work for the physical endurance or the inclinations of most of the small farmers and their families without irrigated land. The labor required is greater and the yields less without irrigation. Large-scale Venezuelan rice production is not to be expected except on a mechanized plantation basis.

Potatoes grow well in various parts of the country when good seed stock is planted and the plants properly cultivated and dusted. However, most of the potatoes planted are from poor seed stock and the plants are left to themselves to survive. These crops, or what is left of them, come into the market about the size of hen's eggs or even smaller.

Wheat, Oats and Barley

Some other agricultural products, which cannot be produced on a substantial scale in Venezuela, such as wheat flour, oats and barley, are imported in large quantities. Wheat can be grown and is grown in a small way in the higher altitudes of Merida, Tachira and Trujillo but the production is small and does not appear economical. Only soft wheat is grown and it is doubtful if hard wheat can be grown there. While soft wheat makes satisfactory cake flour, good bread flour requires hard wheat.

Relatively little of the wheat flour produced in Venezuela finds its way outside of the regions where it is grown.

Oats and barley require a cool damp climate and commercial production of either should not be expected in Venezuela.

Poultry Products

Eggs are small, usually fertile, available in uncertain and limited supply and very expensive. The Lago commissary paid 63 cents U.S. per dozen in August, 1940 and often has to buy eggs from various vendors in lots of less than one dozen in order to accumulate its requirements.

Chickens are kept in very small flocks and most of them live by scavenging. The birds are small, have little meat on them and are nearly always unbelievably tough. Chickens can be cooked only by roasting or boiling. There are no broilers or fryers because they are too tough. The Standard and Lago commissaries are obliged to use imported frozen chickens in spite of their efforts to carry out the Companies' policy of buying all possible supplies in Venezuela. In the Caracas and other markets, chickens are sold alive at retail by the head instead of by weight. The market for fresh infertile eggs and grain fed chickens would be very substantial, particularly at lower prices.

Corn

Corn grows nearly everywhere in Venezuela, near sea level and at the higher altitudes. Very little of it is planted, cultivated and harvested by machinery as is customary in North America, but mostly on very small plots by individual farmers whose sole implement is a machete.

The wholesale price of corn in the Caracas market in August, 1940 was Bs. 0.26 per kilogram, equivalent to approximately \$2.08 per bushel. It is mostly poor corn judged by European or North American standards and is often infected with weevil; but its price limits it to use as a human food and precludes its consumption as a live stock food for which it is used in nearly every other nation. Corn is used principally as a coarse meal in baking corn cakes (arepas) which are a staple food for a large part of the population. Its limited production and high price are a heavy burden on the poor people of Venezuela. Probably no one thing would improve the economy of the nation and the lot of the poorer people as much as the organized production of corn on a large mechanized scale.

Sugar

The import duty on sugar is intentionally prohibitive, being Bs. 16 per kilogram on raw sugar and Bs. 2 on other classifications. The national production is sufficient to supply the demand only at the high price of the market, averaging in August, 1940, according to grade, about Bs. 0.75 per kilogram at wholesale or 10.72 cents U.S. per pound. The average price during the last five years has been fairly close to this figure. While no Venezuelan sugar is bone char refined, the better grades are of reasonably satisfactory quality. Two of the sugar mills are of fair size but a large part of the sugar is made in old, small and inefficient mills that waste a large part of the sugar in the cane and produce a crude brown sugar molded into cones called "papelón".

It is probable that much of the cane grown has a low sugar content. Moreover, the high price and limited supply of sugar forces the raising of cane in the richest fields even up to elevations of beyond five thousand feet which do not produce high yields of sucrose. Corn and beans growing in such fields instead would benefit the Venezuelan people and would be better adapted to the higher altitudes than sugar. As a whole, the Venezuelan sugar industry is inefficient.

Fruits and Vegetables

Bananas and pineapples of excellent flavor are grown in many parts of the nation and small quantities are exported, but there is no organized production. There are reasonable possibilities in the development of a pineapple industry for export.

Citrus fruits are grown on a small scale in many sections but there is no organized production or marketing of them and the quality is usually inferior.

Plantains grow naturally in all sections and constitute an important part of the regular diet of the majority of the people. Mangoes, papayas, breadfruit and other varieties also grow practically wild in many sections.

Avocados of good quality are widely available in the markets. Grapes of good quality are raised in at least one vineyard at Valencia.

Generally, however, there is a scarcity and lack of appreciation of small fruits. The Department of Agriculture recently has started two small experimental fruit farms in the Andes, each under the direction of a Chilean fruiticulture expert.

The Lago and Standard commissaries have great difficulty in securing regular supplies of fresh vegetables. Venezuelan people as a whole do not appear to have a taste for vegetables except potatoes and other tubers. It is possible that the cost in relation to the quality and nutritive value may be a factor but, in any case, vegetables form a very small segment of Venezuelan agriculture and they cannot be expected to become an important item in the nation's agricultural economy.

Coffee

With the exception of petroleum, coffee is the most important export product of Venezuela. It is an extremely important crop, not only because of the foreign exchange that it brings in but because the bulk of it is grown upon land too steep to be used to advantage for other crops.

Coffee is grown generally at altitudes from 1,500 to around 7,000 feet. As a rule the better coffees are grown in the higher altitudes in the states of Merida and Tachira. These states plus Trujillo, Lara, Sucre, Aragua, Miranda, Yaracuy, Monagas and the Federal District produce about 85 per cent of the coffee. Small quantities are produced by nearly all of the other states.

The Venezuelan position in the world coffee markets has been steadily declining, whereas competing countries, Colombia for instance, have been steadily increasing their production. There have been perhaps three reasons for this decline in the Venezuelan position, namely -

First, competing countries have been improving their methods of picking, washing, grading and marketing their coffees, whereas Venezuela has made little if any progress in these directions and perhaps has slipped back;

Second, Venezuela has specialized upon European markets, particularly the German market, to which it has been lured by premium prices paid in special types of German currency good only for barter, while it has disposed of its lower grades of unwashed coffees in the North American markets;

Third, due to high wages, the burden of labor laws, the inefficiency of Venezuelan labor and the high exchange rate of the bolivar, the world market prices for coffees of the qualities produced by Venezuela apparently have been below the national cost of production. This has been particularly true since the advent of the European war which has cut Venezuela off from its former European markets. It is generally accepted even in Venezuela that the cost of production in other nations such as Colombia, Salvador and Guatemala is much lower. The Venezuelan Revista del Instituto Nacional del Cafe, of August 1939, gives the following comparative costs of producing cafe (lavado) per bag of 46 Kg.:

Venezuela	Bs. 35.47
Colombia	20.09
Nicaragua	17.60
Salvador	17.60
Guatemala	14.60

European coffee markets differ in a major respect from those of North America. In Europe, coffee is generally sold at retail, roasted in the whole bean and is ground in the homes. For this reason, the appearance of the bean is important and Continental importers, particularly German importers, favor a large polished bean of good appearance.

In North America, on the other hand, most coffee is sold at retail, roasted and ground in sealed packages, so that the appearance of the whole bean, green or roasted, is of no com-

mercial value. Coffees are bought solely on the basis of their cup values (taste in the cup) without regard to whether the bean is large or small, polished or unpolished. Coffee buyers state that small beans, unpolished, usually give better flavor than the large polished beans. However, one of the largest distributors in North America has recently featured roasted coffee in the bean.

By catering to the Continental market and selling principally its variable, lower grade, unwashed coffees in the North American market, it is only natural that Venezuelan coffees generally are not accorded a high position in North America. This is particularly unfortunate now when this market is practically the only sizeable market available.

The government-supported National Coffee Institute has among its objectives improving the quality and standardizing the grading of Venezuelan coffee. To this end it has established "beneficiation" plants at Rubio, Merida, Motatan, Barquisimeto and Caripe, but these plants emphasize the polishing of the beans and grading according to size which processes are considered unnecessary and even disadvantageous by important North American buyers. The more important factors in the North American market are the methods of harvesting and washing which trace back to the fincas. The Venezuelan government probably has hindered the improvement of quality by paying the same export premium regardless of grade.

The most important consideration in the selection by North American roasters of coffees for their blends is that the taste of their roasted coffee as sold must not change. Therefore,

they are generally unwilling to change a blend that is in current use unless a substantial saving can be made in the purchase of substitute coffees with assurance that the supplies of these substitute coffees are reasonably uniform and will be available for a long period at more favorable prices than the original coffees used in the blend.

Most American roasters have built up their blends, using mild coffees mainly from Colombia, Guatemala and Salvador in addition to the Brazilian coffees. Most roasters have avoided Venezuelan coffees because those coffees that have come into the North American market usually have not been uniform in quality and many of them are said to have an earthy taste. They realize that Venezuela sells its best coffee in the European markets and that when the war is over it probably will continue to do so.

The quality of the better grades of Venezuelan coffee is recognized by North American roasters but unless uniform qualities are continuously available at prices competitive with other coffees of equal quality, it will be difficult to increase the sales of Venezuelan coffees in the North American markets.

The government pays growers a premium on all coffee exported, amounting to approximately 7 cents U.S. a pound, irrespective of grade, which is almost equal to the current market price of the washed coffees delivered in New York City. In addition, the government has guaranteed a minimum price to growers and has financed loans on coffee stocks through the government-owned Farmers and Drovers Bank (Banco Agricola y Pecuario) and through the bank, has purchased some of the excess supply.

Furthermore, the government has substantially subsidized the National Coffee Institute, one of the duties of which is to assist in growing, grading and export activities. While the Institute is represented in New York by a firm of coffee brokers, little progress can be made in publicizing Venezuelan coffee in the North American markets compared with what has been done by Colombia, until the problems of uniformity and available quality have been solved.

The New York coffee trade expects import quotas to be established shortly giving Venezuela a quota of about 400,000 bags. Such a quota would give Venezuelan coffees an opportunity to nearly double their participation in this market if they will meet the requirements and wish to meet the prices of the market. If the quality of larger portions of the Venezuelan crop were adapted to the requirements of the North American market, it would be easier to sell the full quota and the total value would be greater as the average price per pound would be higher.

Cacao

After coffee, cacao is the most important export crop grown in Venezuela; it is grown at the lower altitudes, seldom above 1,500 feet. The principal production is in the Barlovento section of the state of Miranda, in the districts tributary to La Guaira, Puerto Cabello and Tucupita and in the state of Sucre. Small quantities of cacao which command a high price for blending are grown near Lake Maracaibo.

While a relatively small producer in the world's market, Venezuelan cocoa maintains its place among the quality grades, which sell at a substantial premium above the West African and Brazilian grades. Since the outbreak of war, the European market has been closed which has resulted in severe price recessions in the North American markets on account of the over-supply. Because of these low prices, there appears considerable evidence that many Venezuelan cacao plantations have not been kept up as before.

The government has paid a subsidy to growers on cacao exported and has also supported in a small way the Association of Venezuelan Cacao Producers. There appears reason to expect that larger quantities of Venezuelan cacao could be sold in the North American markets if merchandising were organized more efficiently and the product offered at prices competitive with those of equal grades from other markets.

Cotton

The import duty on raw cotton is Bs. 2 per kilogram but when the supply of domestic cotton is not sufficient to meet the requirements of the Venezuelan textile mills, the government permits the importation of sufficient foreign cotton at a duty calculated to equalize the landed cost of imported cotton with the previous price of domestic cotton.

Interviews with the managers of the various cotton mills brought out the fact that while a very small part of the Venezuelan cotton crop is of good grade, the major portion is very poor, badly

picked, not uniform, of mixed staple and very dirty. It does not produce a first-class product and the costs and wastes of spinning and weaving it are much greater than with imported cotton. Mill employes, whose earnings are based upon their production, complained bitterly on account of being forced to work with inferior Venezuelan cotton. Probably no one factor prevents the expansion of the Venezuelan textile industry as much as being compelled to use the poor grade of cotton generally produced in the nation. It would be desirable if an adequate supply of uniform staple, carefully picked cotton of good quality could be produced economically on a large scale. There is little probability of this being accomplished by the small farmers but it should be done in relatively few years by large plantations with adequate organization, capital and equipment which might indicate small export possibilities some time in the future.

Leather

Imports of leather have been running about Bs. 3,000,000 annually in recent years in addition to the leather manufactured locally. If Venezuelan cattle were handled so that their hides were not severely damaged by brand marks and tick holes, there would appear little reason for these imports. No leather made from Venezuelan hides is split for upper leather.

Lumber

Although Venezuela is heavily forested in many sections, imports of lumber have been running at the rate of Bs. 1,300,000

annually. Interviews have indicated that these imports are based principally on price in spite of an import duty of Bs. 0.15 per Kg. As in most tropical forests, there are practically no uniform stands of commercial timber such as can be economically lumbered. In addition, the expense and delays required in complying with government regulations for cutting trees, combined with the cost of transportation and the high cost and low productivity of labor have been so great that lumber from national sources has cost more than imported lumber brought in from great distances. The short term of lumber concessions also discourages national lumbering.

No examination has been made of the forestry situation from a conservation standpoint but unless questions of conservation and erosion are controlling, it would appear that an extension of the concession term, a simplification of the government regulations and reduction of fees and taxes might be of considerable benefit to the national economy in developing its lumber industry. Venezuelan mahogany is well regarded in the markets and stands on about an equal basis with Honduran mahogany. There may be possibilities of a substantial export business in mahogany if concessions were available on a longer and more liberal basis and the costs of lumbering and transportation to tidewater could be reduced.

Vegetable Oils

There is a large local market for vegetable oils in the margarine, vegetable shortening and soap industries. The

principal oils pressed are cotton-seed, cocoanut, peanut and sesame. The oil seeds from which these oils are pressed should be important crops in the agricultural economy of the nation, but are grown only in small amounts in widely spread sections. They are valuable not only for the oil production itself but for the by-products of cotton-seed meal, cocoanut meal, peanut meal and sesame meal which are high-protein live stock feeds and of which there is a great deficiency. There appears to be some possibility in the future development of an export business in vegetable oils or oil seeds if well organized.

Drugs and Fibers

Some of the tropical drugs, rotenone bearing roots, tonka beans and other tropical products grow wild and are gathered in a small way. Various fibers such as fique are grown in a small way, indicating the possibility of developing abaca or sisal on a commercial export basis.

Rubber

Consideration is being given to growing rubber in Venezuela and the government has had a rubber expert in the country studying its possibilities. Wild rubber was indigenous in the Amazon Valley and it appears probable that there would not be much difficulty in getting rubber to grow in many areas in Venezuela. However, the price level of the rubber market during the last two decades has eliminated wild rubber from any substantial share of the world market and there seems to be little

prospect of its increasing even the small position that it now holds.

Perhaps Venezuela might establish a plantation rubber industry but the major portion of the cost of producing plantation rubber is labor and Venezuelan labor is so expensive and so inefficient compared with the labor employed by competitive rubber estates in the Dutch East Indies and Malaya, that it is difficult to visualize how plantation rubber produced in Venezuela could remotely approach competition with the rubber produced in the Far Eastern markets.

It is possible, of course, for individual farmers to be educated to plant and tend a few trees each, but considering the many years required before appreciable returns would be received and the possibilities of the production of synthetic rubber at much lower costs than at present, the future possibilities of growing rubber commercially in Venezuela appear too limited to justify the investment of much time or money.

Government Department of Agriculture and
Live Stock (Ministerio de Agricultura y Cria)

The Venezuelan Government has developed a large Department of Agriculture and Live Stock. This department has been organized much along the lines of the Department of Agriculture in the U.S.A., with many experimental and demonstration stations in the important sections of the nation. Visits were made at a number of these stations and a brief study has been made of some of the experiments that have been carried on and their results to date. It was impossible to obtain the program of the work that has been

laid out by the Headquarters Department for each of the several stations to carry out.

Many experienced and able agricultural men, national and foreign, were conferred with at the various stations and it is believed that a large amount of valuable work has been done and is being done. On the other hand, there are substantial indications that some of the stations are of little practical value.

The station at El Valle appears to have a particularly able and experienced personnel and to have been noteworthy in its accomplishments.

It is believed that much of the money appropriated for the Department of Agriculture and Live Stock has been spent for impractical purposes principally because the Department seems to lack definite practical objectives. Its organization and its general objectives appear to have been taken over bodily from those of the United States Department of Agriculture. However, the fundamental conditions are so different in tropical Venezuela from those in temperate North America that an organization and objective suitable in the one country is not at all adapted to the other.

Nearly all agriculture in Venezuela is conducted either by large haciendas employing resident laborers or by individual farmers who have no capital and till their small plots without implements other than the universal machete. Venezuela has very few farmers of the middle class type which forms the backbone of the agriculture of the United States and whom the United States

Department of Agriculture is designed principally to serve.

The Ministerio de Agricultura y Cria is serving farmers probably 90 per cent of whom are unable to read or write, whereas the farmers whom the United States Department of Agriculture was designed to serve are probably at least 95 per cent literate.

There is another basic difference between the conditions in the two countries. The United States Department of Agriculture is operating in the temperate zone, whereas the Ministerio de Agricultura y Cria is operating in the tropics. In the temperate zone the major portion of the crops is produced on medium-sized farms with a substantial capital investment in each. This is because of the nature of the climate, the nature of the crops and the wide distribution of the capital invested in agriculture and these factors are controlling through Europe as well as in North America.

In the tropics, on the other hand, as in other countries of South America, Africa, India and the Dutch East Indies, nearly all of the tropical agricultural crops are produced either by large integrated plantation estates, each of which has a large capital investment, or by very small native farmers operating with little or no capital on a bare subsistence basis.

Venezuela is no different in this respect from other countries in the tropics. In all tropical countries that have large agricultural production, this production has been developed initially by the large profitable plantations and the small farm production has come later as a result of the operations of laborers who had worked formerly on the large estates and learned the

practical way to conduct their own operations.

The island of Java, for instance is a mountainous country, about the size of Cuba and a fraction of the size of Venezuela, yet it has developed an agriculture that supports more than 40,000,000 people. It is probably one of the most highly-developed agricultural sections of the world and produces a wide variety of tropical products which it sells all over the world at prices against which few other countries can compete.

The low-cost rubber production in Java, in conjunction with that of British Malaya which operates on the same system, broke the Brazilian rubber monopoly of 30 years ago, when rubber ranged \$1.00 and more per pound, and has established a large-scale rubber industry which produces about one-third of the world's supply at a much lower cost than has been possible in the Western Hemisphere. This was done initially by the big rubber estates in which large amounts of capital had been invested and, in more recent years, by the natives who had worked on these estates. In this process, the natives observed the profitable development and learned the practical and economical methods of growing rubber. As a result they recently have contributed from their very small plots a substantial portion of the rubber exported from the Netherlands East Indies.

The island of Trinidad is climatically, geographically and geologically similar to Venezuela, separated only by a small strip of water. The agriculture on this island is very highly developed and forms a striking contrast to the agriculture of

Venezuela. The agriculture on this little mountainous island which supports, with a higher standard of living, a population about 13 per cent of that of Venezuela, is conducted on the one hand by a number of large estates producing sugar, rice, cattle, hogs and other crops, and on the other hand by the very small farms, few of which till as much as a hectare of land or have a substantial amount of capital.

The public market in Port of Spain has a wider variety of agricultural products than is found in Caracas or anywhere else in Venezuela and the quality of the fruit and vegetables is far superior.

There is another great difference between the conditions faced by the Ministerio de Agricultura y Cria and the United States Department of Agriculture. Most of the farmers of North America are farmers by tradition who love their land and seldom leave it except by compulsion. The same applies to the small native tropical farmers in Trinidad, India and the East Indies. On the other hand, it has been observed that many Venezuelan farmers actually prefer to live in the cities and have left their farms whenever opportunities to work in the cities have become available, especially if those opportunities have been government jobs.

The small farmers in Venezuela constitute, in general, a social problem rather than an agricultural problem. They undoubtedly can be helped over a period of years and generations and this should be one primary function of the Ministerio de Agricultura y Cria through educational and extension programs.

In the meantime the agricultural economy of the nation cannot wait for realization from long-term social programs. It can be developed rapidly enough to meet the economic requirements of the nation only through large-scale, integrated, well-managed estates, just as it has been done in all other parts of the tropical world. The other primary function of this Ministerio should be to conduct whatever technical research proves necessary to insure the success of such large-scale agricultural producers.

The Venezuelan Government, through the Ministerio de Agricultura y Cria, and the many foreign experts that it has retained from time to time, have made substantial progress in the latter function by establishing a number of fundamentals, some of the more important of which follow:

1. That good strains of native beef cattle, Zebu-English crosses, and Zebu-English crosses on native cows, do well when they are under reasonable control on ranges which provide adequate feed and water.
2. That good strains of Guernsey, Holstein and Brown Swiss dairy cattle, as well as Holstein-Zebu crosses, do well when given reasonable care and feed.
3. That good strains of Hampshires, Durocs and a number of other breeds of hogs do well when given reasonable care and feed.
4. That good strains of Rhode Island Red and Barred Plymouth Rock poultry do well when given reasonable care and feed.
5. That corn grows in all parts of the country and that good selections properly planted and cultivated give satisfactory yields on reasonably good land.

6. That suitable strains of alfalfa, soy beans and other legumes give satisfactory yields when properly planted on suitably prepared land.
7. That the important pasture and soiling grasses - Guatemala, Para, Bermuda, Guinea, Elephant and Rhodes grasses - do well when good seed is planted on suitably prepared land.

These fundamental facts are ample on which to base agricultural and live stock industries, the production of which will be adequate for the needs of Venezuela.

On the other hand this Ministerio has not found and is not likely to find:

1. A breed or strain of beef cattle that when left to itself in the llanos without fencing will resist ticks, the nuche fly, flood and drought.
2. A breed of dairy cattle that will withstand neglect and contact with other cattle afflicted with tuberculosis or Bang's disease.
3. A breed of hogs that can be left to scavenge for themselves and still make satisfactory pork products.
4. A breed of poultry which will resist contact with other poultry afflicted with coccidiosis or Pullorum disease.

These are not problems of agricultural technology and, therefore, are not practical problems of the Ministerio de Agricultura y Cria. They constitute attempts to discover elsewhere in nature a substitute for human effort, education, organization and capital. Definite steps to put the facts that have been learned into practical operation on a commercial scale should not be deferred on account of the expectation of future discoveries.

Marketing of Agricultural Products

One of the great difficulties facing Venezuelan agriculture is the marketing of its produce. With the exception of a few public retail markets, there is no organized distribution system. Agricultural products are distributed by a mass of small dealers nearly all of whom do business on an unbelievably small scale. Probably most of these dealers do not earn the equivalent of a day's wage at common labor.

They operate on wide margins, buying very cheaply from the farmers. Products often are sold and resold several times before reaching the consumer. Their operations form a major barrier against the grading and the sanitary handling of food products throughout the nation.

Coordination of the marketing of agricultural products with their production is essential to supplying the people of the nation with sufficient supplies of adequate foods that have been produced and marketed under sanitary conditions. This coordination requires effective integrated production and marketing organization as well as capital. It is difficult to see how it can be carried out except by large integrated organizations with experienced and effective marketing and administrative staffs and sufficient capital.

Colonization

The government has attempted to improve the agricultural economy of the nation at different times by colonizing favorable areas divided into small plots with groups of colon-

ists from agricultural countries. By placing colonists on plots of land which will little more than support their own families, there is little emphasis on surplus production and therefore no contribution to the agricultural or national economy. Colonization which merely increases the number of subsistence farmers adds so much more social burden to that which the government already carries.

Even if these colonies were successful in themselves they would be unsuccessful from the national point of view. Actually, it appears that most of the colonists either have sunk to the subsistence level or have become discouraged and left. These colonists have come from some of the most advanced countries in the world agriculturally - Denmark, China and the Canary Islands. Many have also come from Margarita Island.

While immigration of good people who have been farm bred and trained would be advisable for Venezuela, the grouping of such immigrants in colonies presents many economic and social disadvantages. Such farm-bred immigrants would absorb Venezuela customs and life much quicker if they were employed in company with Venezuelans on the farms or ranches of large agricultural organizations. A more liberal policy of immigration without colonization would be more effective.

THE GOVERNMENT IN BUSINESS

General

One of the most serious barriers in the way of developing the industrial and agricultural resources of the nation is the wide range of business activities in which the government itself is engaged. The table below indicates some of the various kinds of business that were observed in which the government has interest, ownership or control:

Banking	Cattle Raising
Railroads	Tonka Beans
Electric Power	Coffee
Air Transport	Cocoa
Steamships	Dairy Farming
Steamship Terminals	Creamery
Meat Packing	Sawmill
Textiles	Sugar
Grain Elevators	Rum
Vegetable Oils	Salt
Matches	Hotels

In addition to these lines of business in which the government is interested and with limited exceptions operates, there is more or less continuous discussion, much of it official, concerning the extension of government participation to other industries. There has been discussion, for example, about nail manufacture and the growing of rubber.

It is no discredit to the Venezuelan government that most of its business operations have not earned reasonable returns on their investments and that its agricultural activities have been unsuccessful financially. Other governments, including

that of the United States of America, have been no more successful in their excursions into business activities and many of them less so. The conduct of business enterprises by governments rarely has been financially successful except when the business has been a monopoly and burdensome to the people. Business establishments directed with consideration for political interests have not operated efficiently in any country as far as can be determined.

Private capital, whether national or foreign, cannot be expected to invest extensively in the development of industry or agriculture if it must face competition with the government which can operate tax free and pay losses out of general revenue and it has not done so. If the government expects Venezuelan capital now invested abroad and foreign capital to be invested extensively in Venezuelan agriculture and industry, one of the first steps will be for the government as such to get out of the management of agricultural and business enterprises by incorporating them separately and providing them with effective non-political management. If this is not done, little agricultural or industrial development can be expected in Venezuela.

The second step will be to develop the earning power of these agricultural and industrial properties by means of effective and aggressive management so they will be attractive for private investors to purchase.

Agriculture and Live Stock

The Venezuelan government owns very large integrated agricultural and live stock properties including manufacturing

plants for the primary processing of their agricultural and live stock products. Most of these properties were assembled by a former president of the republic, General Gomez, and certain of his relatives and associates. After the death of General Gomez it is understood that most of these properties were taken over by the government for the alleged reason that they had been originally purchased with money from the National Treasury. These government-owned properties comprise:

1. Immense cattle ranches located principally in the states of Guarico, Apure and Cojedes.
2. Thousands of hectares of pasture and agricultural lands located in the vicinity of Lake Valencia, including many large dairy farms. Large quantities of various kinds of live stock are carried on many of these properties.
3. Large coffee haciendas located principally in the Andes and around the lake of Valencia.
4. Many large cacao plantations located principally in the state of Aragua and in the Barlovento section of Miranda.
5. A large sugar plantation and mill near Valencia.
6. The largest abattoir in Venezuela located in Maracay.
7. A milk processing plant producing tinned butter and other milk products located in Maracay.
8. A plant for pressing vegetable oils from cotton seed and other oil seeds in Maracay.
9. One of the most modern cotton mills in Venezuela located in Maracay.
10. Grain silos for cleaning and storing grain, situated in several parts of the country.
11. Hydro-electric plants in the state of Aragua, serving some of the above manufacturing plants and farms as well as other customers.

In 1938, the Ministry of the Interior indicated an original value of Bs. 153,000,000 for the former Gomez properties. With the exception of much of the city real estate, most of those properties are still under the jurisdiction of the Department of the Interior which showed them as representing assets of Bs. 103,089,419 as of September 30, 1939. Certain of the properties, such as the packing house at Maracay and some others, are not included in this figure as they are managed by the Ministerio de Agricultura y Cria and other ministries of the government. No information was obtained to indicate whether the values placed on the properties were based upon current appraisals or whether they were based upon the prices at which the properties were originally purchased.

The properties operated by the Ministry of the Interior have reported net profits as follows, for the fiscal years ended September 30:

1937	Bs. 1,332,824
1938	1,141,840
1939	784,154

If the asset value of these properties is anywhere in the neighborhood of Bs. 103,000,000, the earnings of about one per cent on the investment are unbelievably low, particularly in a country like Venezuela where high rates of investment return are the rule. Furthermore, in 1938-1939 at least, the small profit that was earned came from the manufacturing properties, the agricultural properties having shown a substantial loss. Inspection of the manufacturing plants and such agricultural properties as were visited indicates that the properties are very much underdeveloped.

SUMMARY OF EXISTING CONDITIONS

Cost of Living

The cost of living should be considered from the viewpoint of the people who live within the nation and earn their money within the nation and not from the standpoint of those people whose incomes emanate from foreign sources which involve the exchange value of the bolivar.

From the internal viewpoint alone, the cost of living in Venezuela probably is as high, if not higher than in any other country in the world, yet the general standard of living is very low. There are a number of causes for the high cost of living, among which are:

1. High Cost of Government: No matter what the sources may be of the money which is spent, high cost of government must be absorbed in the cost of production, transportation and distribution of the products the public must buy or which are exported. Approximately one-third of the national income goes for the cost of government.
2. High Labor Costs: The low productivity of farming and working people caused by poor health, lack of adequate and sufficient sanitary food, lack of education, particularly in the trades and in practical farming, and labor and social laws too far advanced for the present economy of the nation, are basic reasons for high labor costs.
3. Low Productivity of Land: Lack of capital, lack of organization, low productivity of labor, lack of facilities and limited use of power agricultural machinery all restrict production.

4. Lack of effective executive direction and practical agricultural skill.
5. High tariffs on food products which cannot be produced within the nation on any appreciable scale.
6. Large imports of food products which can be produced within the nation on a large scale.
7. Most striking and important of all, the neglect and the inefficient use of the agricultural and live stock resources of the nation, which probably constitute its greatest industry, even greater than petroleum.

Public Health

Public health throughout the nation in general is poor, but improving. A large proportion of the people are afflicted with syphilis, malaria, hookworm, dysentery or other maladies. This situation has resulted from a combination of circumstances, such as climate, bad sanitation and water supply, lack of education, and in particular, inadequate and unsanitary food supplies. With a very few striking exceptions, there is an absence of the most elementary sanitary precautions in producing and handling foods.

The government appears to be aware of conditions and although it has made great strides in the improvement of the public health during the last decade, it still has a monumental job ahead of it. The oil companies operating in Venezuela likewise have contributed in a large measure toward health improvement and the health and sanitary conditions among the employees of the oil companies are far more advanced than among the public at large.

The question of public health is serious from an industrial and agricultural point of view as well as from a social standpoint. Interviews with many employers, national and foreign, have brought out almost unanimous opinions that the average Venezuelan workman is physically incapable of performing more than a small fraction of the work in a day that is customary among workmen from Mexico, the West Indies, Europe or North America. This situation constitutes one of the important barriers against the investment of capital, national and foreign, in Venezuelan industries and against the exportation of national agricultural products because it makes labor very expensive per unit produced, irrespective of the daily wage. National income, standard of living and cost of living resolve themselves, in final analysis, to the production per worker and half-sick, badly-nourished men cannot turn out the quantity or quality of production that creates high national income.

Education

The Government has been doing a commendable job in primary education in spite of the most difficult obstacles. One form of education that is badly needed is adequate trade schools. Most workmanship in the mechanical arts in Venezuela is notably sub-standard and one of the greatest problems that faces industries is the training of employes in how to do their work. In most other countries, experienced skilled workmen are available at least for the principal industries.

Some means of practical instruction in agricultural methods for farmers is badly needed in place of the theoretical instruction given to white collar students.

Transportation

Venezuelan railroad rates seem reasonable with a few possible exceptions. With the completion of the link under construction between the Bolivar R.R. and the Puerto Cabello-Valencia R.R. there probably will be no justification for additional railroad construction for some time.

Venezuelan air service, internally as well as its service to foreign countries, appears reasonably adequate for the transportation of mails and passengers in consideration of the present development of air transportation. Air express service is limited and charges are high. There may be an opportunity for the development of an air freight service.

In proportion to its population and wealth, its stage of development, the difficult nature of its terrain and the volume of density of its traffic, Venezuela has a reasonably adequate system of highways. Much remains to be done, of course, but a moderate annual construction program, which builds and reconditions the most necessary roads first, should put the highway system where it can take care of the reasonable demands of the nation's traffic in a few years.

Water transportation, naturally the cheapest of all forms of transport, has been restricted, nearly to extinction in the case of coastwise traffic, by excessive port charges,

delays and burdensome official regulations. Certain regulations and charges naturally are necessary, but those of Venezuelan ports are so onerous that they add a heavy burden to the national cost of living and produce proportionately little net revenue for the government.

Industries

Venezuela is primarily an agricultural country. It is reasonably well developed industrially, considering the limited domestic markets and the handicaps of conducting manufacturing enterprises there.

A large proportion of its industries exist only by virtue of a high protective tariff which is necessary to offset the high cost of inefficient labor and the risks, delays and expenses involved in conducting business in Venezuela.

With the exception of what has been done by the petroleum industry, and to a lesser extent by the gold and iron mining industries, there has been little geological exploration on a commercial scale. Deposits of many other minerals are known to exist but the practicability of their profitable extraction has not been established.

The most inadequate and underdeveloped industries are those engaged in the processing, packing and distribution of food products.

Agriculture and Live Stock

Today, agriculture and stock raising are as important to Venezuela as its great petroleum industry, in spite of their underdeveloped condition.

The agricultural and live stock problems of the nation have been studied very thoroughly, not only by the regular government staff of the Ministry of Agriculture, but by many foreign specialists who have investigated particular problems. The net result of these experiments and investigations has demonstrated that corn, alfalfa, soy beans, cow peas and various other legumes as well as the principal pasture and soiling grasses, grow well there when suitable seed varieties are planted in adaptable soils, properly prepared and cultivated. They have found that crossing adaptable selections of Zebus, and Zebu-English breeds with selected native cows has graded up the native beef cattle and the resulting animals have been adapted to reasonable range conditions. They have also found that adaptable strains of most breeds of other kinds of live stock do well in Venezuela, as in other tropical countries, if they are given reasonable feed and care.

Large scale growing of corn, legumes and grasses is a fundamental essential to the successful production of beef, pork, milk, butter, cheese, eggs and poultry, which constitute the high-protein and high-vitamin foods so essential to the public health. Large-scale production of staple foods would reduce the volume of imports in this classification and would, therefore, relieve to that extent the demand for foreign exchange.

In spite of the many studies that have been made by the government on many separate agricultural and live stock problems, no effective progress has been made in organizing agricultural and live stock production on a scale large enough to relieve the

country's economic situation. The former Gomez properties are being partially operated by a department within the Ministry of Interior but their production is relatively small and their earnings, particularly those of the agricultural and live stock properties, are insignificant in comparison with the extent and value of the properties.

There are two entirely separate problems in Venezuela's agriculture:

First: the problem of the small subsistence farmers, the conuqueros, who cultivate small plots with little agricultural knowledge and no capital. These conuqueros are mostly illiterate and often diseased and they constitute a social problem rather than an agricultural problem. It will be a matter of at least a generation, and more likely several generations before this class of farmers can be improved sufficiently to appreciably affect the agricultural production of the nation. Venezuela's economic and agricultural problems are too pressing to wait for the possibility of evolutionary improvement of the conuqueros.

Second: the problem of producing enough high-quality agricultural food-stuffs to relieve the widespread condition of malnutrition which now exists and to improve the standard of living. This has passed the research stage and is now a problem of organization and production and is therefore a business problem.

REMEDIES

A number of the conditions that adversely affect Venezuela, its economy and its people can be remedied. Some of these remedies have been developing during the last decade, whereas very little has been done on others.

The remedies still to be applied can be divided between those which can be realized only over a long period of time and therefore lie entirely within the hands of the government; and those which can be made effective in a short time and therefore can be handled by private enterprise although even these will require the cooperation of the government in one respect or another.

High Cost of Living

The only source of the money required to support a government lies in the wealth produced from its soil and industry. If the cost of the government is high in relation to the wealth so produced, as it is in Venezuela, development is likely to be relatively stagnant, as it has been. While no examination of the government's operations as such has been made, various examples of unnecessary expense for which the government and the nation will receive little in return have been noticed, particularly in the Agricultural and Public Works departments which came most frequently under observation in connection with this investigation.

Remedies for the high cost of living would be:

- (a) Reduction of government expenditures by eliminating expenses incurred for conflicting objectives and in non-productive enterprises.

- (b) Increasing its revenue by securing efficient non-political management of its large agricultural and industrial activities or effecting the sale of those properties and eliminating the expense of administering them.
- (c) Modification of its labor and social security laws so that they will be reasonably uniform and definite and so that they will not continue to interfere with the practical operations of industry and agriculture. Labor and social laws that restrict the employment of labor hurt the very people it is desired to help.
- (d) Reduction of the cost of transportation, as indicated below under that title.
- (e) Reduction of the import duties on food products that cannot be produced on a substantial scale in the nation, such as flour.
- (f) Most important of all, development of the agricultural resources of the nation to produce a larger quantity and higher quality of staple food products, particularly those with high-protein and high-vitamin content, so necessary to strength and health, on a sanitary basis and thereby reduce the importation of such foods.

Public Health

Remedies for the problems of public health would be:

- (a) The establishment of hospitals, clinics and medical service. The government appears to be fully aware of the importance of hospitals and clinics and has completed a most commendable construction program along these lines during recent years. The petroleum companies have also contributed to the development of hospital and medical facilities. While much remains to be done along these lines, progress has been fully as rapid as the available supply of trained physicians and staff has permitted. More trained nurses are needed. The solution of this problem appears to be progressing fairly satisfactorily but it would be improved with more foreign doctors.

- (b) One of the important problems is unsanitary and insufficient water supply in many locations. The government has many accomplishments to its credit in developing and improving water supply in many cities throughout the nation. The solution of this problem necessarily must extend over a long period of time and should proceed in parallel with education in hygiene and sanitation as funds become available.
- (c) Making available to the people an adequate supply of sanitary food products by developing the national agriculture on a large, integrated and mechanized scale.
- (d) Education of the people in the use of sanitary facilities and the importance of sanitation in the production and handling of foods and beverages, particularly milk.

Education

- (a) Primary education has made commendable progress. Undoubtedly there is more to be done but again the government appears to be going ahead as fast as suitably-trained personnel is made available.
- (b) There appears to have been little interest in Venezuela in the way of the establishment of trade schools and farm schools for the purpose of training men to perform manual trades and practical farm work. Of the schools visited, with one exception in the state of Tachira, the instruction appeared strong on theory and weak on practice. This was particularly apparent in the so-called "Practical School of Agriculture" at Maracay. Practical trade schools and farm schools are needed to give instruction in manual work instead of professional work.

Transportation

Remedies for transportation problems would be:

- (a) Revision of the antiquated port regulations and their cumbersome administration so that vessels may load and discharge their cargoes in a reasonable time without the excessive expense and complicated procedure that is necessary today,

particularly for small vessels. The need for this revision has been recognized by the government and was called to the attention of the National Congress by the President of the Republic in his special message of May 7, 1938. Until the present regulations have been modified drastically, little can be done to reduce the cost of transportation for the nation.

- (b) Contingent upon (a) being carried out, coordination of the plans for highway development with coastwise marine transport and with existing railroads where practicable.

Industry

The limited markets and the collective problems facing a new industry that might seek to establish itself in Venezuela are so serious that no large industry has been found in which a substantial investment can be recommended at this time.

The cumulative risks and uncertainties which will affect a newly-established business are so great that large profits should be expected in order to justify proposed investments, particularly investments of foreign capital with their additional risks of exchange and transfer. Certain of these risks, such as those arising from limited markets cannot be substantially reduced. The scarcity of skilled labor should become less troublesome in the course of time.

However, if the risks of doing business in Venezuela are to be reduced substantially, the government should take steps to minimize the uncertainties which business now faces in its necessary contacts with the government and government employes that are pointed out in the chapter "Industrial Investment Possibilities".

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If substantial progress should be made in reducing the risks of doing business as indicated above; additional investment might be expected in certain industries such as textiles (also dependent on growing better cotton) and shoes. Such investments, however, probably would not be on a large scale. There are other industries, however, which would appear to justify further investigation. These are the industries that would logically be integrated with agriculture and the live stock industry such as:

- Meat-packing Plants
- Vegetable Oil Mills
- Fertilizer Plants
- Leather Tanneries
- Milk Products Plants
- Cotton Mills
- Saw Mills and Lumbering
- Bananas
- Rum

There may be a sound basis for considerable investment, national and foreign, in these industries if the risks indicated above should be adequately reduced.

Mining

There always will be opportunities, of course, to develop further the extractive industries such as petroleum and mining, as long as practical geological explorations can prove up commercial deposits and if concession contracts are sufficiently liberal to permit prospective profits in proportion to the amount of capital and risk involved in the undertakings. More liberal concession contracts and less delay in granting them would further the development of the extractive industries.

Agriculture

With its agriculture and its live stock industries in an exceedingly underdeveloped state, with the health of its people impaired by the lack of adequate or sufficient, sanitary foods, particularly of the high-protein and high-vitamin types which are essential to health and stamina, with a cost of living that is among the highest and a general standard of living that is one of the lowest in the world, there appears no other alternative for Venezuela to develop its agriculture and stock raising than by encouraging in every way possible the investment of capital in large integrated agricultural and live stock operations.

The improvement of the lot of the small individual farmer is a most desirable objective which should be continuously pursued, but it is clear that this is much more a social problem than an agricultural or economic problem. Probably the quickest way of educating groups of these farmers is to give them opportunities of employment and practical education on well managed, profitable plantations. This might be supplemented by a government program of practical agricultural education and extension work. For many years, if not for several generations, the efforts toward improvement of the living standards of these small farmers will be a burden upon the economy of the nation and not an addition to it.

Importance of Large Scale Agricultural Integration

More than enough agricultural experimentation has been done by Venezuelan and foreign technologists to make possible the formulation and execution of an operating plan for the profitable, large-scale production of agricultural products.

The nation and the government have a pressing need of such large-scale production and, to obtain it, a practical development and production program must be prepared, financed and executed.

If this large-scale agricultural production is to be useful to the nation and to the government, obviously it must be profitable. It must stand entirely on its own feet. Only a large, well-integrated organization can develop volume production of agricultural products profitably, for two basic reasons, namely -

1. The enterprise must be large enough and sufficiently integrated to support the kind of a practical administrative and merchandising organization that can execute a large production and marketing program.
2. The enterprise must be large enough to support the maintenance facilities and personnel that will be required to service the power agricultural equipment that will be necessary for such large-scale mechanized farming.

The problem is essentially an executive one, in the course of which the advice of the agricultural technologists and scientists would be utilized.

These large-scale agricultural operations need to be integrated from a marketing and transportation point of view, as well as a production standpoint. If they were integrated as a production organization alone, they would be compelled to depend upon the myriads of small dealers to market their products in their usual unsanitary fashion and on the uncertain service and inadequate transportation equipment that is available from contract motor vehicle operators. The Maracay abattoir itself has found this necessary and it operates a small fleet of refrigerated

trucks solely for its own business.

Marketing and transportation integration is particularly necessary to provide for the sanitary handling of food products and their delivery to the consumer in good condition.

An adequate supply and variety of high-quality, sanitary foods would make it possible to stimulate actively the tourist trade. This would be most desirable for increasing the national income and supply of foreign exchange, if for no other reasons.

If improvements in the agricultural economy of Venezuela are to be expected in the present generation, they must be attained by the organization and development of large-scale integrated operations of the same general plantation type that has been successful in the other parts of the tropical world. This requires capital. If the progress that the government has made in selling the former Gomez agricultural, live stock and industrial properties is any indication of the prospects of securing sufficient Venezuelan capital, foreign capital will be needed. The former Gomez properties might be attractive to foreign investment if title questions could be solved and the earnings of the properties developed.

Foreign Capital

Underdeveloped countries cannot expect to develop their natural resources or the modern necessities for the health and comfort of their citizens without availing themselves of the use of foreign capital. They never have been able to do so.

The United States of America was developed with English, Dutch and German capital; Canada, Australia, South Africa, India,

Jamaica, Trinidad and other parts of the British Empire were developed with English capital; Java was developed with Dutch capital; Cuba was developed with North American capital; Argentine and Brazil were developed with English, German, Dutch, Italian and North American capital. The petroleum development of Venezuela likewise has been with foreign capital.

The most cursory glance at the world map shows that the more highly developed nations today are those which have consistently encouraged and provided for the political security of foreign capital, whereas the underdeveloped nations are principally those in which foreign investments frequently have been damaged or destroyed by various political means, direct or indirect.

While Venezuela had maintained a policy of dealing fairly with foreign investors for the last 30 years, it has allowed to exist the conditions that have been pointed out in this report, which have resulted in making investment and business risks so great that little foreign money has been attracted to the nation except for petroleum development and local capital demands 20 to 30 per cent income before it will invest.

RECOMMENDATIONS

Any program to develop Venezuela and to improve the living conditions of its people necessarily must be of some magnitude if it is to produce visible results.

The outstanding need of Venezuela is the development of its agriculture and live stock industry. This would be for the dual purpose of increasing the national income and providing the people, at reasonable prices, with adequate supplies and good grades of beef, pork, poultry, eggs, milk, butter, cheese, margarine, sugar, corn and rice that have been produced and marketed under sanitary conditions.

The experience of other tropical countries which have been successful in the profitable development of their agricultural resources, Java and Trinidad for example, has been that the large integrated estates have developed the practical production methods which have been copied later by many of their former local employes, each in a small way for his own account.

As a rule these former local employes have been successful in a small way, because they have had practical agricultural education and experience.

No indication has been discovered in any of the tropical countries in which the small local farmers are relatively illiterate, where their agricultural production has been appreciably improved even by the best professional instruction. Tropical experience indicates that small farmers will not change their traditional agricultural practices until they have been

intimately associated for a number of years with the production practices of profitable commercial estates or plantations.

The most effective approach to the practical solution of this problem would be through the integration and development of the former Gomez properties of the government. During the last few years, the government has been attempting to sell the properties piecemeal with relatively little success except for the urban real estate properties which are a favored form of Venezuelan investment.

The government cannot reasonably expect to dispose of the former Gomez properties as a unit, or any of them except the small ones at a remunerative price until their earning power has been developed. Furthermore, even if they could be sold off separately, irrespective of price, few of them are large enough to be operated efficiently by themselves and the national income will suffer.

The most effective way for the government to dispose of these properties would be to sell them as an integrated, unified enterprise. Such a sale would hardly be practicable until the properties have been separately incorporated and their earning power developed to a figure that bears a reasonable relation to the value of the properties. No remunerative sale can be expected until the earnings of the properties are increased many fold beyond the present performances. These integrated properties offer the most suitable inducement to foreign capital that has been found, provided that the question of sound titles can be solved.

Whether they are sold or not, the separate incorporation, integration and development of these naturally allied agricultural, live stock and processing operations represents the only practical means that has been found of getting something done reasonably soon and in a substantial way to improve the national income, the government revenues and the welfare of the people of Venezuela and to relieve the demands on available supplies of foreign exchange. Other large haciendas might also be integrated and developed.

It is therefore recommended that:

A study be made, in cooperation with the Venezuelan government, of the former Gomez properties now operated by the Ministries of Interior, Agriculture and other Ministries, together with such other large haciendas that might be integrated into a large-scale mechanized production and marketing agricultural organization, the study to be directed toward the following objectives:

1. To study the character and extent of the individual properties and prepare a general plan for their integration and development.
2. To make estimates of the reasonably expectable production and income over the first five years.
3. To make an estimate of the amount of capital required to accomplish the desired objectives.

ACKNOWLEDGEMENT

It is desired to express particular thanks to Dr. Francisco J. Parra, Minister of Hacienda, whose kindness made possible invaluable contacts with his and other departments of

the Venezuelan government. These officials and employes of the various government ministries were most cooperative and courteous in supplying needed information. This work would also have been impossible without the unstinted and friendly assistance given by every officer and employe of the petroleum companies, with whom contact was made. Many others outside of the government and the petroleum industry were universally cordial and helpful.

EXHIBITS

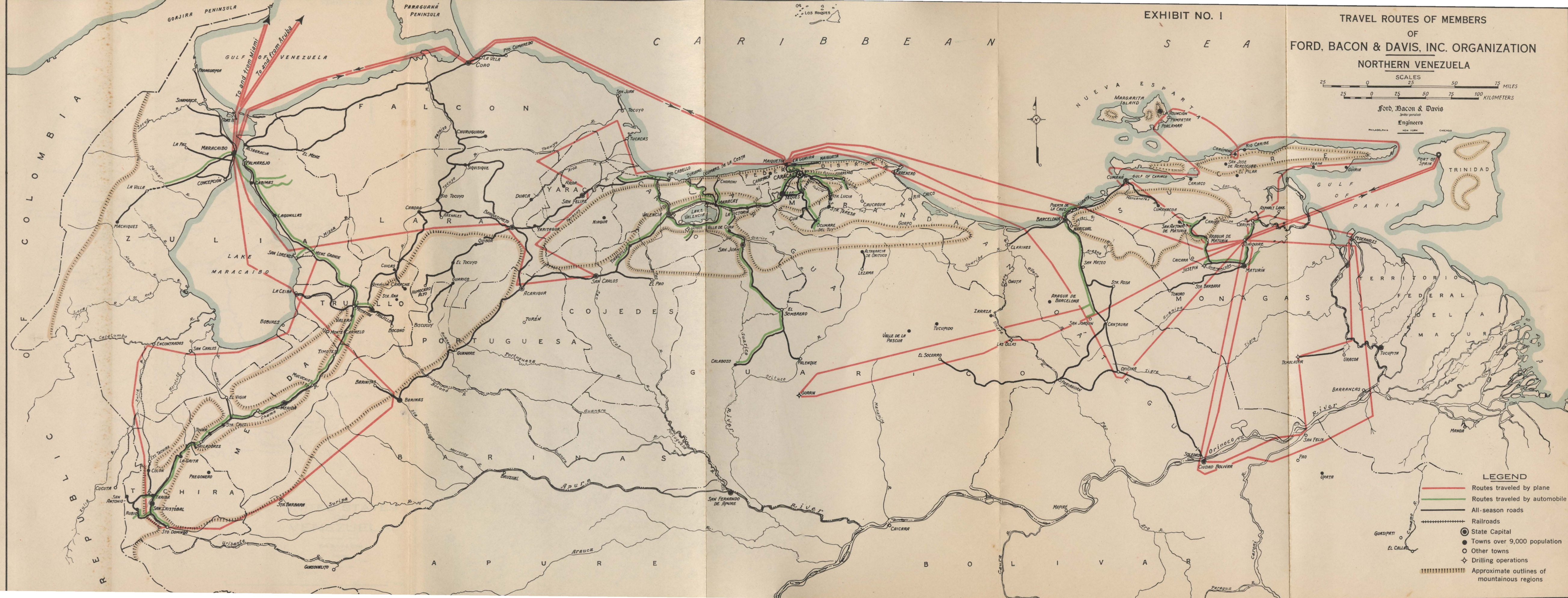


EXHIBIT NO. 1

TRAVEL ROUTES OF MEMBERS
OF
FORD, BACON & DAVIS, INC. ORGANIZATION
NORTHERN VENEZUELA

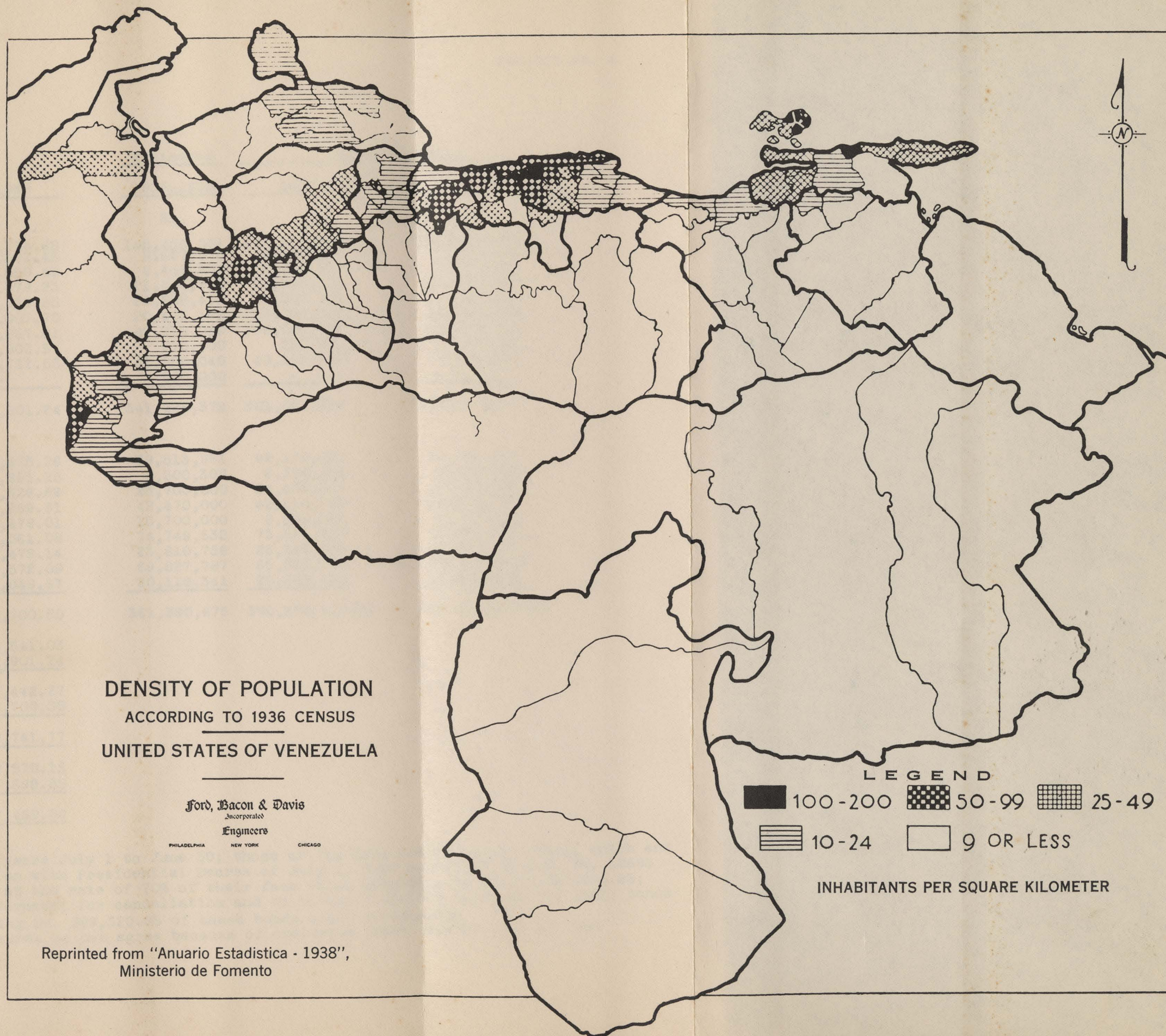
25 0 25 50 75 100
MILES
KILOMETERS

Ford, Bacon & Davis
Junior partners
Engineers

LEGEND

- Routes traveled by plane
- Routes traveled by automobile
- All-season roads
- Railroads
- State Capital
- Towns over 9,000 population
- Other towns
- Drilling operations
- Approximate outlines of mountainous regions





Analysis of Federal Revenues and Expenses
of the United States of Venezuela

Exhibit No. 4

	1931-1932	1932-1933	1933-1934	1934-1935	1935-1936	1936-1937	1937-1938	Estimated 1938-1939	Proposed Budget 1939-1940	Proposed Budget 1940-1941
	Bs.	Bs.	Bs.	Bs.	Bs.	Bs.	Bs.	Bs.	Bs.	Bs.
Revenue										
Customs	76,928,690.49	66,842,981.04	66,065,207.44	73,191,898.05	72,495,186.55	119,229,153.16	133,733,754.68	145,456,051	135,601,000	151,421,000
Consular	3,665,630.75	3,195,749.45	2,943,039.04	3,292,497.59	3,313,898.17	6,635,010.50	9,094,392.45	8,697,870	9,100,000	9,000,000
Salt	7,271,295.45	7,027,184.80	7,297,999.10	7,451,626.00	6,096,282.30	3,332,295.00	3,786,650.40	4,438,954	4,000,000	5,000,000
Stamps	11,691,222.65	10,628,648.50	10,144,767.49	10,109,651.79	11,301,189.01	16,313,388.73	19,845,479.23	21,045,820	20,000,000	22,000,000
Cigarettes	14,250,274.85	18,140,115.88	17,225,984.95	15,996,345.35	16,821,474.20	21,871,720.87	24,424,793.85	26,286,422	25,000,000	27,000,000
Liquor	11,581,869.55	13,711,974.64	12,248,210.66	11,098,673.69	11,375,437.10	15,982,110.96	16,941,007.70	20,405,162	19,000,000	21,000,000
Mines	50,882,620.51	44,816,641.39	47,483,489.65	55,399,296.31	61,670,049.16	63,979,962.87	108,400,287.81	82,219,060	108,000,000	90,000,000
Telegraph and Cables	2,810,153.30	2,492,218.91	2,369,978.95	2,270,554.25	1,653,045.85	181,145.15	227,802.57	270,000	230,000	250,000
Other Branches	6,013,825.15	5,033,579.78	6,050,462.15	4,169,605.61	4,398,572.67	6,077,898.39	14,339,732.55	31,906,040	40,393,898	18,844,000
Coinage	-	-	-	20,000,000.00	-	20,400,000.00	-	500,000	-	-
Total	185,095,582.70	171,889,094.39	171,829,139.43	202,980,148.64	189,125,135.01	274,002,685.63	330,793,901.24	341,225,379	361,324,898	344,515,000
Expenditures										
Department of Interior	50,718,534.90	43,302,548.92	38,144,921.58	39,697,755.51	42,608,168.70	53,804,017.51	66,835,973.26	89,513,951	92,178,092	91,907,654
" " State	5,312,013.84	5,527,205.20	5,389,636.45	5,050,513.95	5,818,454.60	6,685,806.17	5,754,691.25	6,500,308	6,364,958	6,164,958
" " Treasury	16,369,011.55	16,748,830.28	16,752,183.38	22,638,622.76	28,752,262.79	23,179,889.58	21,322,326.69	23,700,000	24,456,364	30,268,284
" " War and Navy	27,720,322.27	31,554,335.31	31,210,163.84	37,793,976.44	37,892,792.45	35,774,254.49	39,549,269.31	42,470,000	42,110,700	39,910,700
" " Development	12,822,162.98	12,665,802.64	12,923,396.44	12,310,612.89	10,115,418.61	4,511,877.15	13,830,478.01	10,700,000	9,008,372	8,707,592
" " Public Works	36,875,403.88	35,378,979.20	30,309,499.99	30,034,066.24	55,213,992.10	77,068,763.67	66,563,061.08	74,749,532	73,623,739	60,742,377
" " Public Instruction	9,439,828.32	9,469,807.00	9,348,353.81	9,239,744.73	10,574,702.81	17,319,118.34	21,549,479.14	23,810,756	26,312,376	25,462,376
" " Health, Agriculture, etc.	7,115,330.25	7,251,562.55	9,846,818.07	22,152,363.46	38,173,413.83 (a)	50,430,601.51	59,188,372.09	69,827,787	65,523,792	60,223,481
" " Communications	-	-	-	-	4,037,240.17	16,542,546.37 (b)	18,475,049.67	20,118,341	20,681,518	20,430,484
Total	166,372,607.99	161,899,071.10	153,924,973.56	178,917,655.98	233,186,446.06	285,316,874.79	313,068,700.50	361,390,675	360,259,911 (d)	343,817,906 (d)
Balance July 1	40,869,384.69	59,592,359.40	69,582,382.69	87,486,548.56	111,549,041.22	67,487,730.17	56,173,541.03			
Revenue as above	185,095,582.70	171,889,094.39	171,829,139.43	202,980,148.64	189,125,135.01	274,002,685.63	330,793,901.24			
Expenditures as above	225,964,967.39	231,481,453.79	241,411,522.12	290,466,697.20	300,674,176.23	341,490,415.80	386,967,442.27			
	166,372,607.99	161,899,071.10	153,924,973.56	178,917,655.98	233,186,446.06	285,316,874.79	313,068,700.50			
Balance June 30 (c)	59,592,359.40	69,582,382.69	87,486,548.56	111,549,041.22	67,487,730.17	56,173,541.01	73,898,741.77			
National Debt, Internal (c)	24,572,460.15	22,700,460.15	22,173,960.15	20,680,960.15	3,078,570.15	-	2,999,570.15			
National Debt, External	-	-	-	-	-	-	117,898.85			
Total at End of Year	24,572,460.15	22,700,460.15	22,173,960.15	20,680,960.15	3,078,570.15	-	3,117,469.00			

Note: (a) In addition to Department of Health, Agriculture, etc. also is included:
Department of Health and Social Assistance
Department of Agriculture

Total

Bs. 19,167,533.44
2,209,238.51
16,796,641.88
38,173,413.83

(b) Includes Department of Labor
(c) The figures of Revenue and Expenditures are for the economic years July 1 to June 30; those of the Debt are for civil years, which end on December 31, the middle of the fiscal year. In connection with Presidential Decree of July 1, 1935 published in O.G. No. 18688 of same date regarding amortization of Internal Debt Bonds at the rate of 70% of their face value amounting to Bs. 12,337,993.85; holders of these bonds have been presenting them to the Government for cancellation and up to and including December 31, 1935; bonds have been paid off to the amount of Bs. 11,348,673.00 leaving Bs. 989,320.85 of these bonds still outstanding.
(d) For 1939-1940 and 1940-1941 total revenues and total expenditures do not agree because of exclusion under expenditures of item "Corrections to Budget"

Source: Statistical Department Standard Oil Company (N.J.)

1939-1940	1940-1941
1,064,987	697,094

